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MBA 1958 Calendar

April 21-22, Western Mortgage Clinic, Hotel Lassen, Wichita

May 8-9, Southwestern Mortgage Clinic, Del Coronado Hotel, San Diego

June 2, Board of Governors Meeting, Sheraton-Carlton Hotel, Washington, D. C.

June 22-28, School of Mortgage Banking, Courses I and II, Northwestern University, Chicago

June 29-July 5, School of Mortgage Banking, Course III, Northwestern University, Chicago

July 27-August 2, School of Mortgage Banking, Course I, Stanford University, Stanford, California

August 3-9, School of Mortgage Banking, Course II, Stanford University, Stanford, California

November 3-6, 45th Annual Convention, Conrad Hilton Hotel, Chicago

>> LOOKING TO TOMORROW: One-fourth of all insured families or more than 10,000,000 families put 4.5 per cent or more of disposable income into life insurance and an estimated 3,000,000 families put 9.5 per cent or more into such premiums, according to the Institute of Life Insurance.

Today's larger average premium, however, represents a slightly smaller percentage of family income than was true in 1950.

The average amount put into life insurance premiums by U. S. families owning policies is shown by the survey to be $190 yearly, compared with $150 in 1950, the increase being 27 per cent. Neither of these figures include the group insurance paid for by employers, nor the insurance fully paid-up.

The average premium was generally larger as the income level increased. For the income group $7,500 and over, the average premium was $440.

The Mortgage Banker

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Contents

INVESTMENT ROLE OF MORTGAGES WITH THE THRIFT INSTITUTIONS

The mortgage has long played a major role in the investment policies of thrift institutions. Around the middle of the 19th century, from 80 to 90 per cent of the assets of the life companies was invested in mortgage loans, a similar amount by the savings and loans and well over half by the mutual savings banks. Mortgages constituted the largest single asset for these three classes of investors—as they did 50 years later. But today these proportions have declined. How important a role will the mortgage play in the investment policies of these and other types of investors in the future? The answer lies in an examination of what has caused the changing views of mortgages as investments during past periods. Mr. Klaman furnishes the historical evidence pointing to the influences which will determine the investment appeal of mortgages in the years ahead. Until recently, he was with the Capital Markets Section of the Division of Research and Statistics of the Federal Reserve System and is now economist for the National Association of Mutual Savings Banks in New York.

IN THE affairs of finance, thrift institutions and mortgages are as natural a pair as steak and mushrooms. This close association has endured with a varying degree of affection for about a century and a half, as long as thrift institutions have been on the American scene. The degree of affection with which these institutions will regard mortgages in the years ahead will undoubtedly vary, as it has in the past, with changes in the relative attractiveness of other suitors for funds and with changes in the financial and economic climate generally. Clues to future variations in investment behavior of the main types of thrift institutions — mutual savings banks, savings and loan associations, and life insurance companies —may be found in the record of their past activities.

While each of the main types of thrift institutions have, from their earliest days, depended heavily on mortgages as an investment outlet, it has been only within recent years as time is measured that the mortgage market has become heavily dependent on thrift institutions. Back around the mid-19th century, for example, mortgages constituted the largest single asset of each of these institutions, representing 80 to 90 per cent of the assets of life insurance companies, a similar proportion of the assets of savings and loan associations, and well over one-half of the assets of mutual savings banks.

Fifty years later while still investing the bulk of their funds in mortgages, the thrift institutions held only about one-third of the total nonfarm mortgage debt then outstanding. At that time individuals and other non-institutional investors were still the main source of mortgage credit. With the continued growth of thrift institutions, their importance in mortgage markets increased, though unevenly under the impact of the depression and war years. By the end of World War II, they held about one-half of the nonfarm mortgage debt compared with two-fifths in 1920. Over the years, except for the war when Government securities were acquired in large volume, mortgages have continued to be prime investment outlet for savings banks and savings and loan

***By* SAUL B. KLAMAN**

Economist, National Association of Mutual Savings Banks, at the MBA-NYU Conference in January

"One thing that can be said with certainty about the future course of events in the mortgage markets is that if the thrift institutions and others continue to rely as heavily on federal programs as they have in the past, they will be vulnerable to unpredictable statutory and administrative changes. The alternative to such uncertainties would be to accept the uncertainties of the marketplace and bear the risk of error in judgment and economic change with minimum reliance on federal support, direct or indirect."

associations but have never again dominated the assets structure of life companies.

The greatest relative growth in the participation of thrift institutions in mortgage markets has come in the dozen years since the end of the war, during which time the net flow of nonfarm mortgage funds from these lenders amounted to almost $80 billion out of a total nonfarm mortgage flow of $115 billion. This dominance of postwar mortgage lending activity by savings institutions increased their holdings to almost two-thirds of the total outstanding nonfarm mortgage debt at the end of 1957. Within their own asset structures, mortgage holdings increased from less than one-sixth to over one-third for life insurance companies, from less than one-fourth to three-fifths for savings banks (the highest proportion on record), and from less than two-thirds to well over four-fifths for savings and loan associations. Similar sharp gains were recorded relative to the flow of savings into these institutions between 1945 and 1957.

The extraordinary expansion in mortgage activity of savings institutions relative to other market participants and to other types of investments reflected the unusually liquid position of financial institutions and the strong pent-up demands for housing and other real estate facilities at the end of the war. Neither of these conditions exist today. Each of the main types of financial institutions held a larger amount and proportion of their assets in Government securities at the end of 1945 than in any preceding year. Conversion of these large holdings into higher yielding assets and development of new investment outlets for the inflow of savings were common goals. Federal Reserve support of Government bond prices through early 1951 made it possible to sell such securities readily and without penalty. As a result, liquidation of Treasury obligations proceeded rapidly during the period of support and provided a large reservoir of funds to meet private demands from the capital market.

At the same time the Federal Gov-

ernment expanded and liberalized its mortgage underwriting programs and secondary market facilities. These actions in conjunction with generally expansive Federal monetary and fiscal policies created a financial climate in which yields and other considerations associated with mortgage loans were especially attractive to financial institutions. The speed of conversion from Governments to mortgages varied among financial intermediaries reflecting differences in policies, legal restrictions, and organization problems. Notwithstanding basic institutional differences, however, it is clear that each of the three main types of savings institutions regarded mortgage investments with maximum or steadily increasing favor from 1946 through 1950.

During these years, savings and loan associations devoted all of their net capital market investments to mortgages, mutual savings banks expanded their net mortgage investments from less than one-eighth to well over nine-tenths of their total net capital market flows, and life companies increased the proportion of their net capital market flows going into mortgages from about one-seventh to three-fifths.

Commercial banks behaved quite differently from the thrift institutions in this period committing a much larger share of their net loans and investments to mortgages in the immediate postwar years than in any subsequent year, a mortgage flow much larger than the flow from other institutional investors. This unique action reflected the basically different investment programs and objectives of commercial banks and the markedly greater volume of Governments held by them than by the savings institutions.

The universal favor which mortgages found with institutional investors in the first half of the postwar decade ceased with the abrupt change in the financial climate wrought by the Federal Reserve-Treasury "accord." March 1951 is an historic date in the financial world. It marked the end of the nearly unlimited liquidity enjoyed by financial institutions and the beginning of a flexible monetary policy which has had as much if not more influence on mortgage market conditions, and on the role of thrift institutions in the vari-

ous sectors of the market as any other single factor. The reactions of the major types of savings institutions to subsequent changes in monetary policy and in overall capital market conditions varied in accordance with their fundamental differences including their degree of specialization in mortgages, types of mortgages preferred, and opportunities for alternative investments. It is these differences in reactions to changes in the investment climate and in basic mortgage operations which it is important to assess if we are to evaluate the future role of thrift institutions in the mortgage market.

While financial institutions with broad alternative investment outlets have adjusted their mortgage flows more frequently and widely over the past few years than lenders with limited outlets, all types of investors adjusted their flows in accordance with changing yields. Thus, not only life insurance companies but mutual savings banks and savings and loan associations reduced their share of net capital market investments going into mortgages during the 1951-53 period of capital market stringency and rising yields on alternative investments. For life insurance companies and mutual savings banks the relative reduction reflected chiefly a favoring of corporate securities relative to mortgages; for savings and loan associations it reflected the acquisition of Treasury obligations at increasingly favorable yields following liquidation in earlier years.

The subsequent easing in monetary policy and capital markets after mid-1953 was accompanied by a sharp relative and absolute expansion in funds devoted to mortgage investments to be followed by an equally impressive contraction in the past year or so in the wake of the return to capital market stringency and monetary tightness. Within these broad similarities of movement lie important differences in degree of change, in timing, and in types of mortgage investments which are basic to an understanding of present and future operations of savings institutions in mortgage markets.

Comparison of net mortgage flows with the supply of long term funds available to each type of institution indicates the much stronger reaction, as well as the longer lag in response, of life companies than of other savings institutions to changes in the financial climate. This is a reflection both of the wider investment opportunities available to life companies and the greater influence of the mortgage commitment process on their operations. In 1950, for example, net mortgage acquisitions of life companies amounted to \$3.2 billion, larger than those of any other type of investor and nearly three-fourths of their net increase in assets. This amount and ratio was maintained well into 1951 many months after the Federal Reserve-Treasury "accord." The sharp reaction to tight money did not show up in the figures until 1952, when net mortgage flows dropped to less than \$2 billion even though net assets rose substantially. The 1953 mortgage flow was only slightly larger than in 1952. It was not until 1954, months after the easing in capital markets, that the total and relative mortgage flows of life companies expanded appreciably, and by 1955 had reached

a new peak of $3.5 billion. Again, although monetary policy had once again tightened and capital markets were under restraint in 1956, life companies acquired as large a volume of mortgages in that year as in 1955. The sharp drop in their mortgage investments occurred in 1957 to $2.2 billion representing only two-fifths of the net increase in assets, the same amount and ratio as in 1953.

Thus during alternating periods of capital market expansion and restraint from 1950 to 1957, net mortgage flows from life companies went through a complete cycle of wide amplitude, both absolutely and relative to their available long term funds. Their lag in response to changes in the financial climate was also pronounced reflecting the lag between commitments and acquisitions which in recent years has lengthened considerably. Net mortgage flows of commercial banks have also fluctuated rather sharply since 1950, owing to the wide choice of alternative outlets both short and long term available to them.

Compared to the fluctuation in mortgage flows from life companies and commercial banks, flows from savings and loan associations and savings banks have been considerably more stable in recent years. For savings and loan associations, net mortgage flows actually increased substantially (after a slight pause in 1951) throughout the early period of credit stringency and accelerated during the shift to credit ease to an all time annual peak for any type of lender of $5.3 billion in 1955. In that year the associations had been relying heavily on borrowings from the Federal Home Loan Banks to finance their sharply expanded lending activities and by late summer advances from these reserve institutions amounted to a record $1.2 billion compared with less than $700 million a year earlier. Without this net borrowing of half a billion dollars the associations could not have extended the volume of mortgage credit they did because their net inflow of new share capital was less than their net mortgage credit extensions.

As a result of these heavy borrowings and sharp loan expansion the FHLB system in the fall of 1955 cautioned its member institutions "to fol-

low a loan program which will meet loan demands out of savings and loan repayments." Some associations had also gone in heavily for standby commitments and were caught short when they were unexpectedly called upon to honor them because the market failed to ease later as anticipated. It was necessary for some of these associations to sell mortgage loans from portfolio, borrow from commercial banks or from the Federal Home Loan Banks to meet these earlier standbys.

Even though the FHLB eased restrictions on borrowing before 1955 ended, the associations, a little frightened by 1955 developments, pulled in their horns in 1956 seeking to regain greater liquidity in the face of continued tightening in the capital market. Though the net inflow of savings actually increased slightly in 1956 over 1955, savings and loans sharply reduced their net mortgage lending by about one billion dollars, reduced their indebtedness to the Home Loan Bank by $200 million and acquired a relatively large volume of Governments. Having improved their liquidity ratios somewhat, the associations in 1957 in the face of an even tighter capital market than in 1956 and sharp declines in mortgage lending by other financial institutions, maintained their mortgage flows at the 1956 level. All of this also without any additional net borrowing from the Federal Home Loan Banks and with a reduced inflow of savings.

"Any increase in total mortgage acquisitions of life insurance companies during 1958 may be expected to be rather small. If a condition of credit ease continues through 1958 and into 1959, we may expect a substantially greater increase in life company mortgage flows in the latter year than inflows from savings banks and savings and loans associations. For 1958, however, I would expect the reverse to prevail. A rough guess on total volume would place the net increase in mortgage flows from all three types of savings institutions at from \$8¼ to \$8½ billion compared to less than \$8 billion in 1957, a rise of from 5 to 8 per cent."

Somewhere between the markedly different reactions of life companies and savings and loan associations to alternating periods of capital market ease and stringency of the past few years has been the response of mutual savings banks. Those institutions showed little change in their total volume of net mortgage flows between 1950 and 1953 as markets changed from ease to tightness, though there was some decline relative to their available long term funds. The sharp rise in mortgage lending characteristic of all institutions in the 1954-55 period was true also of the savings banks. In the past year, however, following a slight decline in 1956, these institutions experienced a more precipitous decline in their mortgage lending activity than other thrift institutions to the lowest level in the past five years.

To understand the full meaning of the varying mortgage market reactions to thrift institutions and their implication for future activity it is necessary to look behind the overall totals into the main mortgage market sectors. For all institutions a large part of the volatility in mortgage lending activity reflected changes in their willingness to invest in Federally underwritten mortgages, particularly those guaranteed by the Veterans Administration. The uniqueness of the action of savings banks lay in their aggressive seeking of GI loans all through the 1951-53 period of credit stringency, while life insurance companies and commercial banks were sharply curtailing such activity. By 1953 the savings banks had accounted for over half of the total net flow of funds into VA mortgages and their new position of leadership in this

market was maintained through subsequent years of expansion and contraction. The main contraction did not occur until last year when VA mortgage yields were clearly out of balance with these in the non-insured mortgage sector and in other capital market sectors. It was the decline in VA lending, in fact which accounted almost entirely for the sharp drop in mortgage flows from savings banks in 1957; conventional and FHA mortgage flows changed only slightly.

Similarly, the preceding years of sharp expansion during 1954 and 1955 reflected the acceleration in VA mortgage activity, while the relative stability of total mortgage flows in the 1951-53 period reflected the nearly offsetting effects of sharply increasing VA mortgage flows and declines in FHA and conventional lending. It is of interest to remember, in trying to understand why the savings banks industry acquired a steadily increasing volume of GI loans after 1951, that they had then only recently acquired the right to lend beyond state boundaries, that many large banks had more funds to invest than could be absorbed by local markets, and that effective yields on GI loans after discounts were quite favorable compared to local investments available in the capital surplus areas of the East where most savings banks are located. In contrast, the decline in GI loan activity during the 1956-57 period of credit stringency reflected the fact that many savings banks had already built up their VA mortgage portfolios to desired levels and that increasingly large discounts were required to bring yields into competitive position with other capital market securities.

Perhaps the most single significant development influencing savings banks' postwar mortgage operations was the amending of most state statutes permitting the acquisition of out-of-state Federally underwritten mortgages. Prior to this legislation, savings banks had been playing a steadily decreasing role in mortgage markets compared with other institutional investors. Since 1950, however, the savings banks have become important national mortgage lenders in government-underwritten mortgage markets, as well as large local lenders.

The wide fluctuations which have been characteristic of life insurance company participation in mortgage markets in the past years, have also reflected in the main their sharply expanding and contracting VA mortgage market activity. For example, the net acquisition of VA loans by life companies dropped sharply from \$1.1 billion in 1951 to about \$200 million in 1952 and 1953, then rose subsequently to \$1.1 billion in 1954, further to \$1.4 billion in 1955 from which peak it dropped precipitously to less than \$500 million in 1957. Changes in FHA and conventional lending activity have been considerably smaller over the years. Conventional home mortgage lending by life companies, in fact, increased during both the 1951-52 period of credit tightness and the 1955-56 period of renewed stringency. This past year there has been only a small decline. The suggestion clearly is that life companies in order to maintain their participation in mortgage markets, and hold correspondent organizations together, tend to increase their conventional mortgage flows to compensate for declines in Federally underwritten activity during periods of rising yields in capital markets.

Of course, when one talks about the conventional home mortgage market, one automatically thinks of savings and loan associations. Participation of these institutions in mortgage markets and reaction to changes in capital market conditions reflect in the main their specialized role as conventional home mortgage lenders. This specialization in loans having flexible interest rates has accounted in large part for their steadily increasing mortgage activity in the 1951-53 period and their relatively small reduction in the 1956-57 period of credit stringency. Savings and loans have thus tended to capture a larger

share of the home mortgage market during periods of rising interest rates and yields when other lenders have reduced their flow of funds into Federally underwritten mortgages bearing inflexible rates. Moreover, the absolute flow of conventional home mortgage funds from savings and loans has been so large as to constitute more than half of the total flow of funds into this market during the postwar years and in the past three years has been close to two-thirds.

While emphasis of the role of savings and loan associations as conventional home mortgage lenders is entirely appropriate, it should not obscure the fact that they have also been significant contributors to the VA home mortgage market. In the early years of the postwar decade, in fact, they placed more funds in VA mortgages than any other type of lender and in some recent years when credit has been tight they were expanding their flow of funds in VA mortgages together with savings banks while life companies and commercial banks were sharply curtailing their VA flows. Last year, of course, the savings and loans along with all other major lenders sharply curtailed their VA loan activity. All in all, over the 12 year postwar period savings and loans associations supplied more than one-fourth of the funds which flowed into the VA mortgage market, about as much as life companies and savings banks and considerably more than commercial banks.

In detailing the nature of mortgage flows the main types of thrift institutions I have deliberately limited the discussion to home mortgages, first because this has been the most important and dynamic sector of the mortgage market in the postwar period and second, because the thrift institutions have played their major role in this market. About three-fourths of the $120 billion which have flowed into mortgages between 1945 and 1957 has been on the security of homes, and of the flow from the savings institutions, four-fifths has been on home mortgages. Savings and loan associations, of course, are limited almost entirely to home mortgages—94 per cent of their mortgage investments in the postwar period. For savings banks and life insurance companies, three-fourth and two-thirds respectively of their postwar mortgage flows have been on the security of one to four family properties. It should not be overlooked, however, that the latter two types of institutions are the largest sources of funds for the relatively small multifamily mortgage market, with savings banks the leading lender by far; in the nonresidential mortgage market, however, only life companies play a significant role.

An appraisal of the future market for mortgages and of the role of thrift institutions in that market involves consideration of many factors, including the flow of savings, capital market yields, and monetary policy on the economic front, and administrative and legislative actions in the housing field on the political front. These factors are basic to both a short and long run outlook. Economic forecasting is always hazardous; with respect to housing and mortgage finance it is especially so because this is a field influenced by political as well as by economic developments and I, at least, have not found a way to predict what will be forthcoming from Federal administrators and legislators.

One important consequence of Congressional action, which has already exerted a great influence on mortgage markets has been the virtual disappearance of the VA loan. The VA-guarantee program has accounted for about one-fourth of the entire postwar flow of mortgage funds and for more than two-fifth of the flow into residential mortgages.

Apart from other changes, if the

Federal Government continues its policy of maintaining relatively inflexible interest rates on Federally insured mortgages, then we may expect a continued volatile flow of mortgage funds in the years ahead. The record, as I have outlined it here, is clear in indicating that the influence of monetary policy on real estate markets has been intensified by a structure of inflexible mortgage interest rates. As monetary policy and capital market conditions have alternately tightened and eased, there has been an ebb and flow of VA and FHA mortgage funds coinciding with diminishing and increasing spreads between fixed Federally underwritten contract interest rates and flexible bond yields. The flow of conventional mortgage funds, on the other hand, has fluctuated narrowly as rates have been free to adjust to changing financial conditions. With an overall structure of flexible rates there would be little reason to expect that the impact of changes in monetary policy on mortgage markets would be any greater than on other sectors of the capital market, though there might be more lag in adjusting to change because of the general stickiness of mortgage rates. With a structure of free rates, volatility in mortgage markets will reflect much more conditions of demand than of supply.

It is, of course, true that the flow of FHA mortgage funds in the past decade has been much less volatile than of VA funds, notwithstanding almost equally inflexible rates until recently. These varying flows have reflected important differences however, in the quality of these loans in the minds of investors and in the demand for these loans from borrowers. My concern is that if the VA program for World War II veterans is terminated or continues ineffective because of sub-market rates, there will be a transference of volatility to the FHA program, particularly if the latter program is increasingly liberalized as a close substitute for the VA program. In any event, it is to be hoped that Federally underwritten mortgage rates will be permitted greater flexibility. For, after all, flexible rates on real estate mortgages are just as essential to the proper functioning of capital markets as are flexible yields on corporate securities. Mortgage borrowers should be able to compete on the same terms as non-mortgage borrowers for the nation's available savings.

The likelihood of an expanded FHA program over the years in the possible absence of VA loans raises questions with respect to the reaction of thrift institutions. Prior to the advent of the VA loan program life insurance companies placed a large portion of their funds in FHA-insured mortgages, and would probably react favorably to an expanded and liberalized program in the future. There is every reason to expect that savings banks will expand their investments in this area, also. Savings and loan associations, on the other hand, have had an aversion to FHA loans ever since the inception of this mortgage insurance program 24 years ago. Currently out of a total savings and loan mortgage portfolio of $40 billion only $1.6 billion or 4 per cent are FHA-insured. Savings and loans have been an important factor in the VA loan market holding almost as large a GI loan portfolio at the end of 1957 as life companies and savings banks.

An interesting question to ponder, therefore, is whether in the years ahead the savings and loan industry as a whole will break down their tradition of hostility to FHA loans or maintain traditions and attempt to expand their conventional loan business to fill the gap which would be left in the event the VA loan program expires as scheduled. Long standing traditions take time to break down even when original circumstances giving rise to these traditions change. My guess is that the savings and loan associations will be reluctant

(Continued page 38, column 1)

Why Economists Disagree on the Outlook for Business

And the disagreement is widespread—among the economists and just about everyone else, including particularly those in Washington. One thing is certain: it's more of a set-back than most people had any idea of as recently as the beginning of the year. Mr. Reierson believes it is likely to be somewhat longer and deeper than the two previous adjustments, those of 1948-49 and 1953-54. But sometime this year, he concludes, it is reasonable to assume that the decline in economic activity will come to a halt.

By **ROY L. REIERSON**
Vice President and Chief Economist, Bankers Trust Company, New York, before the New York Chamber of Commerce in March

THE business news since the turn of the year has resolved at least one of the uncertainties that had previously obscured the economic picture. Until fairly recently, there was some question whether an actual business downturn was in the making or whether the sag was merely a pause along the road.

Now, this issue is no longer in doubt; it is generally agreed that the American economy is in a full-fledged recession.

Regarding the extent and duration of the recession, however, and the prospects for a renewed upturn, opinions not only among economists but also among businessmen are as divergent as ever. In fact, rarely have component observers differed so widely concerning the outlook. Opinions range from confidence in imminent recovery to concern over the possibility of a sustained depression. Perhaps this is not altogether surprising; during most of the postwar era, the economic environment has been generally expansive. Only in 1948-49 and 1953-54 did the economy as a whole recede significantly, and in both instances the decline was moderate and its duration was brief. Nevertheless, since the same economic information is available to all, one must ask how it happens that qualified economists should differ so radically in their interpretation of the present and their guesses as to the outlook.

So far, the progress of this third business recession in the post-war era closely resembles its two predecessors in many respects. Although the onset of a recession is always disturbing, it is some consolation to realize that the pace and extent of the downturn have not been perceptibly different from these previous moderate adjustment periods, and that the pattern of developments to date is by no means unusual.

The gross national product—which is an estimate of the value of all goods and services produced, and thus more closely than any other indicator measures total economic activity—has receded only slightly from its peak rate of last year. Now estimated as running at a \$430 billion annual rate, it is only about 2½ per cent below the all-time record rate of \$440 billion reached in the third quarter of 1957. The biggest single factor contributing to this decline was the shift from an inventory buildup to liquidation in the closing months of 1957, and such a shift is altogether typical of a business recession. Inventory liquidation, in turn, was probably sparked by the more than ample supply of goods of all kinds, abundant productive capacity, some moderate weakness in aggregate consumer buying, and a less optimistic appraisal of prospective demands in the period ahead.

In addition to the liquidation of inventories, a decline is getting under way in another major sector of the economy, namely, business outlays on new plant and equipment. Through the turn of the year, such outlays did not decline much, if at all, but the presence of excess industrial capacity virtually across the board, and the many signs pointing to deferments and cancellations in business expansion programs, have clearly affected business decisions and the business climate. Residential building, on the other hand, seems to have bottomed out in 1957 and for some months has been giving some tentative indications of an upturn. Total construction ac-

tivity, moreover, is being well sustained, largely by the persistent uptrend in public facilities. Finally, the sag in defense orders, which became an unsettling factor in the business climate after the middle of last year, has been halted and reversed.

Industrial production has dropped more than total economic activity, and this too is typical; with new orders down and inventories being liquidated, the business recession is affecting manufacturing and mining substantially more than the service industries. Within the manufacturing category, the durable goods industries —and particularly the production of primary metals, metal products, machinery and transportation equipment —have been hardest hit. Most soft goods industries except textiles and petroleum are holding up fairly well, which again conforms to the usual pattern of recession.

The current downturn has had a conspicuous impact upon employment and profits. Manufacturing employment and the factory work week were easing off during much of 1957 and have fallen more rapidly in recent months. In February, partly because of seasonal curtailments in construction and trade, unemployment evidently rose to about 5 million, compared with an average of less than 3 million for 1955 through 1957. Corporate profits, too, have been adversely affected, to judge from the earnings statements currently becoming available. Personal income, however, although sagging for some months, is still very close to its all-time peak.

Thus, as always when a recession takes hold, the economic picture is neither one of unmitigated despair nor is it wholly reassuring. How long the downturn may continue, how long the economy may remain at recession levels, and how long until an upturn takes hold depends in large part upon the extent of the maladjustments in the economy and upon the reactions of consumers and businessmen as well as Government to the developments already under way. It is because these maladjustments cannot be measured accurately and because these reactions and interactions cannot be forecast by any devices or techniques now available, that analysis of the economic prospects, even over the very near term, is today more than ever dependent upon human judgment. This presumably accounts for the prevailing divergence of views regarding the outlook.

A minority opinion is that the economic downturn has been virtually completed and that improvement is close at hand; if proven correct, this would make the 1957-58 recession one of the shortest in our history. At the other end is another group which suggests that business will continue to slide off throughout the remainder of 1958 and that this may culminate in a sustained and serious depression. Most forecasters stand between these two poles; at present they expect the decline to end sometime this year but even here there are many shades of thinking as to whether the end of the decline will be followed by a rapid improvement or whether we face a long period of lower activity, with recovery developing only slowly as time moves on. Basically, this broad spectrum of forecasts seems to be due mainly to differences in evaluating the prospects for various key sectors in our economy—business inventories, business investment outlays, consumer demands for automobiles, houses and goods in general, and the impact of actions by Government.

"The outlook for home-building is likewise controversial; opinions are divided between those who expect increased availability of credit and easier financing to stimulate greater activity and those who question whether there will be sufficient demands to take the new houses off the market. In 1954, assisted by the greater availability of money and widespread liberalization of lending terms, housing starts advanced materially despite the slowdown in business, and many believe that an improvement in housing may again provide support to the economy in 1958. This point of view is encouraged by the expectation of yet easier financing to come, the spurt in applications for FHA appraisals, and the prospect of further action by government to make more funds available, at liberal terms, for the purchase of homes. Others, however, doubt whether buyers can be expected to show greatly increased interest in new home buying as long as employment and income prospects are questionable, especially in view of the large additions that have already been made to the housing stock in recent years and the rapid growth of mortgage debt."

» *The Consumer* — Consumer spending has repeatedly been a source of strength in our economy. This was the case not only in the early post-war period, but again in 1954 and 1955, when vigorous buying of new homes and automobiles sparked the recovery and led to a renewed business boom. Proponents of the optimistic school of thought point to the fact that incomes are cushioned by unemployment benefits and other social programs, that some 4 million workers are scheduled to receive automatic wage increases in 1958, and that further pay rises are in prospect. Consequently, they reason, consumer spending should continue strong and will provide a powerful incentive to recovery as soon as confidence is restored.

The more skeptical students of the business picture, however, note that consumer spending almost always holds up well in the early stages of a business recession, but that spreading layoffs, shorter work weeks and inroads on savings cannot help but put a further crimp into consumer buying especially of durable goods, which has already suffered a sharp decline.

Since the demand for consumer durable goods has an important effect upon those industries that have suf-

fered the sharpest cutbacks in the current recession, their outlook, especially for the automobile industry, is in the forefront of attention. Passenger car sales have been in a sinking spell in the past few months and have been running some 30 per cent below a year ago. Despite steep reductions in output, dealers' stocks are at record heights and further production cutbacks are expected. Some observers are nevertheless reasonably confident that a good seasonal rise in sales will develop soon, and that the industry may still sell some 5½ million cars this year. One factor bolstering their confidence is that more and more consumers are now making their final payments on automobile debt incurred during the banner year 1955 and thus will once again be ready to enter the market.

The more cautious business analysts, however, place greater weight upon the current sag in incomes and employment, the effects of these declines upon the willingness of consumers to increase their debts at this time; also, they suggest that the public is not overly enthusiastic over the 1958 models and in this economic environment is sensitive to their higher prices. Consequently, they doubt whether sales may reach even the 5 million mark this year, compared with 5.8 million in both 1956 and 1957.

The outlook for home-building is likewise controversial; opinions are divided between those who expect increased availability of credit and easier financing to stimulate greater activity and those who question whether there will be sufficient demands to take the new houses off the market. In 1954, assisted by the greater availability of money and widespread liberalization of lending terms, housing starts advanced materially despite the slowdown in business, and many believe that an improvement in housing may again provide support to the economy in 1958. This point of view is encouraged by the expectation of yet easier financing to come, the spurt in applications for FHA appraisals, and the prospect of further action by government to make more funds available, at liberal terms, for the purchase of homes. Others, however, doubt whether buyers can be expected to show greatly increased interest in new home buying as long as employment and income prospects are questionable, especially in view of the large additions that have already been made to the housing stock in recent years and the rapid growth of mortgage debt.

» *The Business Sector*—The case for a speedy end to the recession rests in large part on the outlook for business inventories. Inventories, in terms of physical volume, were not excessively high even at their 1957 peaks, wholesalers and retailers have been following cautious inventory policies for over a year, and on the manufacturing level considerable liquidation has already been achieved in the past few months, especially in stocks of basic materials; steel users, for example, have been living off their inventories for quite some time. Consequently, it is believed that inventory liquidation in the aggregate cannot persist for long, the more so as defense orders are rising. The economy may thus soon be relieved of the pressures of inventory reduction; some rebuilding of stocks is anticipated within the next few months.

The direction of business spending on new plant and equipment, at least over the near term, is one of the less debatable factors in the business outlook today: there is widespread agreement that such spending is on a decline. However, some economists hope that a turn for the better will come before the end of the year, while others hold that we have just concluded a major investment boom and that the downtrend in capital expenditures may last far longer and carry further than current surveys of spending plans would indicate. The optimistic point of view cites the underlying growth trends in the economy, the huge and expanding outlays for research and new product development, and the constant pressure to modernize facilities in order to meet competition and check rising costs. The more somber outlook, on the other hand, is bolstered by the sharp drop in orders for machinery and new industrial building, falling business appropriations for new capital projects, and increasingly frequent reports of stretchouts and cancellations. With profits squeezed and capacity likely to remain excessive in many major industries for some time to come, it is stressed, there may be little inducement to embark on further ambitious capital expansion programs for some years to come.

» *The Role of Government*—While the private sector of the economy is agreed to be in a sag, at least for the

> ***"While the private sector of the economy is agreed to be in a sag, at least for the present, it is equally evident that demands by government, both on Federal and on state and local levels, are in rising trend. There is no dispute over the strength in public construction in 1958. State and local construction projects continue to expand, the highway program is picking up speed, military construction will rise sharply, and the Federal Government is planning larger public works. The big question seems to be whether, beyond these reasonably assured prospects, the Federal Government will initiate a sharply increased public works program, and how long, even if this is done, it will be before the impact of such a program is felt in terms of industrial activity and employment. The skeptics point out that since the construction industry as a whole is continuing to operate at a high rate of capacity, increased programs may merely create backlogs and bottlenecks without significantly helping employment and activity in the manufacturing sector of the economy, the more so as a great deal of construction machinery has been produced in advance of need."***

Which way will the consumer jump? The answer to that question has always been of foremost importance in previous readjustments of economic activity. Mr. Reierson takes the pros and cons in the argument as to what the consumer is likely to do and then offers his own conclusion: "I fear there is little immediate prospect of a revival of economic activity from the side of the consumer. Outlays on nondurable goods and on services should hold up fairly well. This will provide important support to the economy, but it is not likely to spark an upturn in business. For the more volatile industries such as automobiles and other durable goods, the outlook is less encouraging. These lines usually do well when incomes are advancing; with consumers now well stocked, unemployment up, personal income static or sagging, and individual indebtedness high, it is difficult to see an upsurge of spending on durable goods in the offing at this time. Similar considerations cast some doubt also upon the prospects for a lusty housing year ahead; we may be doing well if the rate of home building in 1958 exceeds that of last year by even a small margin. Moreover, I question whether greater public spending or tax reductions would substantially affect the outlook for consumer durable goods over the near term."

present, it is equally evident that demands by government, both on Federal and on state and local levels, are in rising trend. There is no dispute over the strength in public construction in 1958. State and local construction projects continue to expand, the highway program is picking up speed, military construction will rise sharply, and the Federal Government is planning larger public works. The big question seems to be whether, beyond these reasonably assured prospects, the Federal Government will initiate a sharply increased public works program, and how long, even if this is done, it will be before the impact of such a program is felt in terms of industrial activity and employment. The skeptics point out that since the construction industry as a whole is continuing to operate at a high rate of capacity, increased programs may merely create backlogs and bottlenecks without significantly helping employment and activity in the manufacturing sector of the economy, the more so as a great deal of construction machinery has been produced in advance of need.

Of perhaps more immediate interest to industry is the prospect of increased defense orders and expenditures. Major procurement contracts are on the rise, and although present plans of the Defense Department envisage a lower level of new orders in the second half of 1958, upward revisions are deemed likely. There is no doubt that this will be of important help especially to industries connected with missile development and production. The optimists, as already noted, place major importance on this prospect; they expect rising orders to play a major role in improving the inventory situation as a whole and curbing the downtrend in plant and equipment programs. The pessimistic view of the future, on the other hand, is inclined to minimize the impetus of the modest increase in defense outlays now being budgeted, especially since the increased military procurement is not likely to be of much benefit to important industries that are now in the doldrums. Nor can military spending be expected to trigger an important rise in business outlays on plant and equipment.

Sharp debate, likewise, surrounds the advisability and possible effects of a tax reduction. The prospects of tax relief have increased measurably in recent weeks, and if economic indicators continue downward, a tax cut would seem a reasonable prospect. As to the consequences of such action, however, opinions are divided.

Students of the economic scene generally agree that a tax cut would soon be translated into higher outlays for goods and services, but many doubt that the money would be spent in those sectors of the economy most in need of stimulation, namely, the durable goods industries or, for that matter, home building. It is contended that spending on new homes and automobiles, except in marginal instances, is influenced more by current and prospective employment and incomes rather than by the relatively minor increase resulting from a smaller withholding of income tax in the weekly pay envelope. In any event, any support to the economy from this source is unlikely to show up until the latter part of the year.

» *The International Economy*—Finally, growing attention is being paid to foreign economic developments and prospects. The investment boom seems to be waning in many countries abroad as well as in the United States, prices of basic raw materials have declined in the world markets, competition in foreign trade is becoming keener and many countries are once again troubled by balance-of-payments problems. As a result, United States exports have already slipped, and while net exports are not large in relation to our economy as a whole, the effect on some

companies and industries may be fairly pronounced. Looking ahead, those who take a cautious view of the American business outlook emphasize that, unlike 1953-54, United States business cannot now expect support from active and sustained economic expansion abroad, and that if world economic conditions become more troublesome, as well they may, this would add to our problems at home.

>> *A Personal View*—At the risk of oversimplifying or misrepresenting important qualifications and reservations of individual economists, the divergent views on the current business situation can be summarized.

The optimistic school of thought foresees steady demands of consumers, augmented by increased expenditures on defense, clearing up the inventory situation in fairly short order. Thereafter, the rising trend of Federal, state and local government spending, strength in home building, and possibly renewed accumulation of business inventories is expected to impart a sufficient boost to the economy to overcome the effects of reduced outlays on plant and equipment. In fact, with increased demands mitigating the problems of excess capacity, business managements may soon resume their long-term expansion programs, so that the downtrend in capital spending should prove moderate and brief. In sum, this position holds that the forces of long-term growth are strong even over the near term, that the present recession is no more than a minor adjustment, and that expansion will soon be under way once more.

Proponents of a more pessimistic view—again disregarding many differences in individual positions and emphasis—take a more serious and fundamental view of the recession now in progress. By and large, they interpret it as a basic and perhaps unavoidable readjustment after a vigorous and sustained capital investment boom during which productive capacity has been materially overexpanded in many important industries. With consumers well supplied with homes and goods of all kinds, individual indebtedness pressing upon many family budgets, and the employment outlook less assured, significant adjustments in costs and prices and a shift of productive resources and labor among industries may be required, and considerable time may have to elapse, before the economy moves uphill. Government spending and tax relief, in this appraisal, are likely to help moderate the decline but cannot be expected to forestall the inevitable aftermath of the sustained overinvestment, overproduction, overbuying and overborrowing of recent years. As in the optimistic camp, of course, there are many differing predictions regarding the length of the downtrend, the levels to which it may carry, and the timing of recovery.

At the moment, there is some evidence to support both positions.

I suggest that the current downtrend in the economy is likely to be somewhat longer and deeper than either in 1948-49 or 1953-54. One reason is that the current decline in business spending on plant and equipment cannot be expected to end soon. Profit margins in a great many industries are being squeezed conspicuously, and the pressures of excess capacity, rising production costs, and keen price competition presage further depressing profit statements in the months ahead. Moreover, even with new expansion programs being cut back, capacity continues to grow substantially as the result of projects already in progress. In some instances, costs and competition may spur capital outlays designed to improve efficiency, but on balance, it seems likely that total plant and equipment expenditures will continue downward through the end of the current year and possibly into 1959. Another business investment boom comparable to that of 1956-57 is not in sight for several years to come.

Furthermore, I fear there is little immediate prospect of a revival of economic activity from the side of the consumer. Outlays on nondurable goods and on services should hold up fairly well. This will provide important support to the economy, but it is not likely to spark an upturn in business. For the more volatile industries such as automobiles and other durable goods, the outlook is less encouraging. These lines usually do well when incomes are advancing; with consumers now well stocked, unemployment up, personal income static or sagging, and individual indebtedness high, it is difficult to see an upsurge of spending on durable goods in the offing at this time. Similar considerations cast some doubt also upon the prospects for a lusty housing year ahead; we may be doing well if the rate of home building in 1958 exceeds that of last year by even a small margin. Moreover, I question whether greater public spending or tax reductions would substantially affect the outlook for consumer durable goods over the near term.

The prospects thus are that downward pressures on aggregate production and output will predominate in the months ahead, including pressures from some further liquidation of business inventories; there is no evidence as yet of a bottoming out in economic activity. When the decline does taper off, therefore, it will probably be moderately below present levels. However, although this point of view is clearly at odds with the optimistic anticipation of speedy recovery, I am equally in disagreement with those who see in the present recession the prelude to deep and protracted depression.

The recent expansion period, unlike some previous booms, has not been accompanied by widespread speculation in securities, commodities or real estate based on short-term credit. Nor is there any real prospect of forced liquidation of short-term credit on a large scale, such as accentuated the declines during business recessions earlier in our history. The Federal Reserve since last November has made use of all three major instruments of credit policy—open market operations, the discount rate, and changes in reserve requirements—to reduce the cost of credit and supply funds to the market place, and interest rates have recently experienced the sharpest drop on record.

Furthermore, our economy now features a variety of Government programs which help cushion the impact of unemployment upon personal incomes and, hence, upon spending. These so-called stabilizers have not prevented—nor were they designed to prevent—the development of a business downturn, but they may be expected to reduce the chances of cumulative pressures which led to spiralling

(Continued on page 31, column 1)

Recession Explanation:

SEVERAL times since the 1929-1930 depression we have been faced with business readjustments, and each time the fear of another 1930-32 was very great. It is not surprising that the 1957-58 decline to date is again causing concern. If there is any question whether this concern exists, all one has to do is read the daily papers and trade press, listen to the radio, watch television, and note the increasing number of job applicants.

We are currently in a business readjustment. To some extent, it has been slightly greater than some had expected; in other respects it is not much different than the one in 1953-54 and possibly 1948-49. There is certainly no comparison to 1930-1931 or 1937.

This is not an easy period for the economic forecaster, even for those who had expected this cyclical readjustment. Those who questioned the expected downturn are now questioning the expected upturn. Those who were projecting the long-term future in glowing terms through straight line growth because of population and increased living standards are now beginning to wonder whether this is the answer. If we add up all the uncertainties, the unfavorable and favorable influences, the current situation is no different than the previous periods of readjustments such as 1948-49 and 1953-54.

Having lived through 33 years of economic analysis and forecasting, I sometimes wonder whether the economic analysts should not study psychology as a basis for economic forecasting. As one who advises hundreds of businessmen through our various services, consulting work and special studies, it is always amazing to me to find that it is much easier to encourage the businessman to buy more liberally after markets have risen sharply and to estimate sales more liberally when volume has expanded markedly and to increase production facilities after a sharp advance, than it is to convince him that we are at a bottom and that it is much more sensible to be more liberal after liquidation, whether it is commodity prices, securities, sales or production.

By analyzing the reasons for the current downturn in business and its probable extent, we should be able to come up with some conclusions about how long it will last, how far it will go, and when and where it will first begin to pick up. I'll have to give some figures—not too many—but they're necessary to give the basis for my conclusions. Because I believe that my forecasts are as solidly grounded as forecasts can be.

Complaints about bad business are rampant now—among producers and distributors, large organizations and small ones. There is no denying that general business is down markedly from the high, and that we are in a period of readjustment. As a matter of fact, this readjustment was indicated as long ago as last year by those who were then able to recognize the signs.

However, forecasts by the prophets of doom are far more alarming than warranted by the actual facts. A lot of the important indicators are making excellent showings in relation to earlier years, even granting that they are showing declines from the highs.

Ever since the early 1940's we have been scaling the heights, and we've become rather accustomed to sailing in the clouds. Perhaps that is why the current decline seems to assume unwarranted proportions. But this is a decline from the highest peak of all, and perhaps this will help us keep the present situation in perspective.

Since the end of the war, many have been expecting a sharp business decline. Thus, when a readjustment does come along, too many people think—this is it. They expect it to be another 1937-38, or even a 1930-32. These predictions are based on the false premise that history always repeats itself.

I say it is a false premise because those who make the comparison evidently do not realize how different the present situation is from the previous periods to which they refer.

They do not realize that although history does not necessarily repeat itself, it does teach us something about our mistakes. In my book "No Major Depression in Our Lifetime" published originally late in 1953 and shortly to have its second edition released, I make the point that the responsibilities imposed on America by virtue of her world leadership will force us to avoid a major depression now or any time in our lifetime.

If this sounds overconfident, let me give the facts.

Production is off nearly 10 per cent from the 1956 high.

Unemployment is up to 4.49 million, the highest since 1950.

Despite this, we do not see such symptoms of previous depressions as drastic declines in prices, a sharply lower securities market, bank failures, sharply mounting bankruptcies, etc.

Before we look at when and at what point the decline will end and reverse itself, we must determine the reasons for it and decide which factors may have about run their course.

I believe the decline from the 1957 high is a normal readjustment during a rising business trend and can be attributed to the following:

» The over-rapid expansion in production. It resulted in over-production and accumulation of inventory.

» The sharp decline in defense orders, especially during the second and third quarters.

» A very tight money situation during the early part of 1957, a continuation of the trend during the latter part of 1956.

» A decline in plant and equipment outlays.

» Some weakening of consumer confidence resulting from increased unemployment, lower weekly take-home pay because of the cut in overtime, and the wide-spread emphasis on depression factors.

n: We're Catching Our Breath

Yes, catching our breath before continuing onward, says this internationally-known economist, "but it doesn't imply that the next 10 years will be a repetition of the past in every respect. Our capacity is larger and our costs are greater. The fact remains that we have failed to grow in the past several years; that our economy has been expanding more in dollars than in physical volume; labor must take another look at its policy of steadily rising wages without a pause for consolidation." Zelomek's conclusions: General business activity should reach a low not later than the second quarter . . . disposable income will average higher for the year . . . inventory liquidation should terminate not later than sometime in the second quarter . . . the consumer has not been frightened and isn't likely to become frightened.

By A. W. ZELOMEK

President and Economist, International Statistical Bureau, Inc., New York, before the Purchasing Agents Association of Connecticut, New Haven, in February

» A less favorable balance of trade.

I believe that the greatest effect of these various unfavorable factors has been felt, although there is very little likelihood of an immediate sharp upturn. I look for a reversal either in the next quarter or, at the latest, in the third quarter. It will come slowly. Let us say, graphically, the reversal will be U-shaped rather than V-shaped.

My own interpretation is that the present decline was caused mostly by inventory readjustment and sharply contracted defense orders. There is no doubt that the tight money policy, with a resultant lagging supply of money, has in turn had an effect on inventory. The trend of inventory accumulation or liquidation is extremely important in a business readjustment, as has been very evident during the postwar period. We added considerable inventory in 1952 and 1953 with a resultant readjustment in 1954. We added some inventory in 1956 and, to a lesser extent in 1957, but it was not equal to that in 1952 and 1953. The need to liquidate inventories (and I might say part of it has been found in areas where we didn't suspect it existed) has certainly been responsible for the decline in output, employment and payrolls.

The accumulation of inventories was marked in capital goods and consumer durable goods. It was less significant in non-durable goods. Unfortunately, total inventory figures do not provide a perfect basis for analysis, inasmuch as a good portion of the total represents stocks of defense materials. It is my belief that by the end of this quarter or before the end of the second quarter, sufficient correction in inventories will have been made (especially with sales sustained) to encourage an upturn in output.

I would expect that the sharply declining trend in orders should begin to reverse itself, but not to the extent of other periods of sharp upturns.

My belief that the present decline will not extend very much further in intensity or duration is based on several major considerations:

» The present decline in activity, having been initiated by the need to curtail excessive inventories, can be held to manageable proportions. While we have been focusing attention on curtailment of output in recent months, in reality it actually started in the early part of 1957.

» Defense orders placed in the past 90 days have shown a sharp upturn. To some extent they match in volume the decline recorded in the second and third quarters.

» State and local spending, which has been tending steadily upward (a normal development with increased needs of a rising population), continues to expand.

» Easy money has already shown its effect in the bond market where the advance has been one of the greatest in some time and yields have already decreased considerably. It has also helped the government in its refinancing program. This easier money trend has also been evident in the supply of mortgage money.

» Residential volume has shown signs of having reached a low. While there is little likelihood of an immediate sharp sustained upturn, the outlook is for an improvement above the 1957 low level. New residential starts of up to 1.1 million for the year are not too much to expect. This is still less than our needs.

» The outlook is also favorable for new construction as a whole. The government has already estimated that the total will approximate 5 per cent more than in 1957. In addition to the improvement in residential building and an increase in home additions and alterations, there are also definite indications of an increase in public construction, with new highways providing part of the stimulus. In fact, increases are also indicated for hospital and institutional building.

One of the major differences between 1958 and 1954 is that there is not much likelihood of an upturn equal in intensity to that of 1954. The second most important difference is that I do not see unemployment showing the same rate of decline by the end of the year as it did during the latter part of 1954. The reason for a lag in the upturn in employment is to be found in full employment and the tight labor market which has

existed since the beginning of the war. While it may be difficult to prove, I believe we may have been hoarding about one million workers since the beginning of the war. Naturally many of these have been in the labor force who, under normal conditions, would not have been there. With margins squeezed and with labor costs high and still rising, although at a smaller rate of gain, the tendency will be to operate more efficiently and avoid over-staffing. More important, I expect an increase in productivity, a normal development following a business decline of the proportions of the current one.

In indicating a moderate upturn, I am not ignoring the prospects of a continued lag in plant and equipment outlays during the rest of the year and possibly into early 1959. We can hardly be expected to increase our plant and equipment outlays as long as we are operating at 78 per cent to 80 per cent of capacity. Even with a decline, which I don't expect will be more than $4.5 billion, annual rate, from the 1957 high to the 1958 low, the total will still be very large. Nevertheless, it is still a negative factor in the economic trend.

This lag in plant and equipment outlay will be offset by greater defense spending. National security spending will rise steadily and outlays of $40 billion for defense are certainly in the cards.

Those who are talking about recession or depression seem to overlook a very important economic factor that did not exist before the war or even during the period immediately preceding the Korean War. That factor is government spending, and particularly spending for defense.

Who would be foolish enough to believe that we will cut back defense spending drastically with the threat of Communism facing us? Who would be foolish enough to think we will again allow ourselves to be caught unprepared as we were at the outbreak of the Korean War? Who among us would be foolish enough to think America would not try to catch up and exceed the Russian scientific developments of recent months?

Defense spending is not the only item in government spending. Government spending has become and will continue to be an important tool in the support of the national economy.

There remains the most important spender—the consumer. Most of the answer to this year's recovery is the consumer. The importance of consumer spending to gross national spending can easily be realized when it is noted that of a gross national spending total of $433.9 billion in 1957, consumer expenditures amounted to $280.4 billion. Consumer spending, therefore represented 67 per cent of the total.

Consumer spending is influenced by income, unemployment, savings, debt and psychology. Let's take up some of these items.

Income—Disposable income (personal income after taxes) will average nominally greater this year than in 1957. If there is a personal tax cut as seems likely, the consumer's position will be that much better—and a tax cut cannot be ruled out at the present time.

Employment—Total unemployment now is at 4½ or 5 million. There has been a slowing down in the rate of increase and, in fact, some re-employment may develop while unemployment still gains. Employment will tend higher later in the year, while unemployment will decrease.

Savings—Consumer cash and holdings of "E" bonds at the end of 1957 approximated $234 billion, or about $9 billion more than a year ago. On the other hand, the increase in short-term debt in 1958 amounted to less than $3 billion.

Psychology—At no time since the downturn began has the public's psychological reaction been one of fear. Sales in December and January proved to be more favorable than was expected earlier. The decline in October-November which caused a great deal of concern must be partly explained by other than economic reasons—the flu epidemic, Sputnik, the President's illness, weather, etc.

While consumer spending may lack aggressiveness, it should compare favorably with last year's record volume. I do not agree that consumer spending is going to go way down. How often have I heard in recent weeks that the public does not have to buy. The public can wait. Time and again it is emphasized that the consumer is well stocked with automobiles, washing machines, stoves, refrigerators, television sets; that its wardrobe is well stocked with apparel. Time and again I hear that the consumer will wait with all except absolutely necessary purchases until the economic atmosphere clears and there is greater assurance that he will not be drawn into the ranks of the unemployed.

These cautions are absolutely unrealistic.

The American consumer is not going to sit around waiting for a depression. Those who think he is are ignoring the rising trend of population, the higher standard of living and the needs and desires of the American public. They are under-estimating the changing economic forces of recent years.

The current tendency has been to look to the past for some guidance. One of the factors that has always been looked to has been what happened after each major war. One cannot ignore history, but it would be shortsighted and unrealistic to ignore the fact that the world of 1958 is quite different than 10 years after World War I, the Civil War or the Spanish-American War. Thus, while one should be cognizant of the past, one must consider the differences that exist currently.

This does not spell out a depression. We are literally catching our breath before continuing onward, but it doesn't imply that the next 10 years will be a repetition of the past in every respect. Our capacity is larger and our costs are greater. The fact remains that we have failed to grow in the past several years; that our economy has been expanding more in dollars than in physical volume; labor must take another look at its policy of steadily rising wages without a pause for consolidation.

This is an unusual type of readjustment. The wholesale and retail price indexes have hardly shown a ripple. This explains Washington's concern about the forthcoming inflation while we are still in a deflationary trend.

In the meantime, the Government is concerned about the present rise in unemployment and how to rectify the situation. This is an important election year. Government assistance through tax reductions, monetary manipulation and spending for defense and public works will be an important instrument in support of the economy.

Summarizing my conclusions:

>> General business activity, based on gross national product and total production, should reach a low not later than the second quarter, but more likely toward the end of the first quarter. The upturn will be slow and, in fact, the gain in employment may lag as compared with the upturn in output and gross national product.

>> Disposable income will average higher for the year despite the increased unemployment and the lower take-home pay. Transfer payments will act as a support to personal income.

>> Inventory liquidation, a key item in the present decline, should terminate not later than some time in the second quarter. However, inventory accumulation will lag, especially in view of the relative stability in prices.

While average wholesale prices will be fractionally higher for the year, individual items may show rather wide fluctuations. In general, the 1957-58 decline will be characterized by remarkable price stability.

>> The consumer has not been frightened and it is not likely that he will become frightened. He will continue to be a bulwark of an essentially healthy economic situation.

>> The Government will give support through various means, especially in view of the fact that 1958 is an important election year.

>> The American businessman will act as he always has during a period of marked competition. He will resort to creating something new, something different, at excellent values. As in the past several years, it will be a question of selling rather than producing.

Servicing Clinic in Detroit Acclaimed a Success . . .

Detroit, Michigan, was the scene, March 6 and 7, of the second of this year's special MBA Mortgage Servicing Clinics. Built around the same theme of "Participate and Profit" as its predecessor meeting in Baltimore exactly one month earlier, the Detroit clinic drew over 300 registrants from some 27 states, the District of Columbia and Canada.

As in Baltimore, the meeting was highlighted by a maximum of audience participation; all seminar sessions were excellently attended and the opening morning panel of three investors, three correspondents and three government representatives received enthusiastic audience support. Most popular among the seminars were those dealing with foreclosures and delinquencies; and, in drawing the heaviest attendance, they duplicated the precedent set in Baltimore. Two other roundtable seminars—on customer relations and on office management—each of which were added to the Clinic program this year for the first time, also proved particularly popular.

Featured at the first day's luncheon was a speech by MBA Vice President Walter C. Nelson, president, Eberhardt Company, Minneapolis. Mr. Nelson's own earlier servicing background provides him with a particular advantage in recognizing the importance of servicing to the over-all operations of any mortgage firm. And, in his speech, he emphasized that through the servicing phase of the business it is possible to attain the highest level in a mortgage company's operation.

The office visitation field trips were well attended. Each of the host firms —Citizens Mortgage Corporation and First Federal Savings and Loan Association of Detroit — provided conducted tours of their premises, including with each tour a kit of forms used and a full description of the use and application of the various equipment in their operation. Refreshments were served; and at First Federal a variety of door prizes were presented to those holding the lucky pre-punched Remington Rand tab cards.

SEEN IN DETROIT: In first photo, the opening morning panel on current servicing problems. That's Howard E. Meyer, manager of servicing, New York Life Insurance Company, at the microphone. He and Tom McDonald, vice president, T. J. Bettes Co., Houston, served as panel co-moderators. Then, directly below, an over-all view of the special Clinic luncheon at which MBA Vice President Walter C. Nelson was the featured speaker. His topic: "Mortgage Servicing—A Progress Report." Top photo, second column, shows the speakers' table at the luncheon. W. W. Dwire, vice president, Citizens Mortgage Corporation, in Detroit, and general chairman of the Clinic, is speaking. Last photo shows, in actual operation, a round table seminar on delinquencies. Ollie E. Rollings, Jr., manager, servicing department, Liberty National Life Insurance Company, Birmingham, is the discussion leader.




President's Page

END OF DISCOUNT CONTROLS CREATES A NEW RESPONSIBILITY FOR US

IN all the time that I have been interested in the affairs of the mortgage industry, I have never seen such swift action on housing legislation as the Congress has just taken in passing the new Housing Act.

Within a matter of days this bill was considered by both the House and the Senate; and, with a debate that was relatively insignificant except in one aspect, it was sent to the President for signature. The one item of debate that was significant is what I would like to discuss in this letter.


John C. Hall

This subject has already been mentioned by MBA's General Counsel in his letter to Members dated March 20th. In this letter Mr. Neel pointed out that the elimination of discount controls which the Bill contains was something toward which MBA officials, and representatives, and all members had worked for months. He also pointed out that the elimination of controls left a great responsibility in the hands of each MBA member.

To illustrate the point, Mr. Neel forwarded for the attention of each member an extract from the Congressional Record containing a portion of the debate on the floor of the Senate. In this debate various senators pointed out that Congress would be on the lookout for any abuse of the provisions eliminating discount controls.

Let me refresh your recollection with one specific statement of Senator Humphrey:

> "It should be understood by the lenders and other financial institutions that by the passage of the bill they are, in a sense, put on their honor and their good behavior. If they exercise the prerogatives they seem to think they have, of discounting to the point where it has a substantial effect on the interest rate, they will have to face another legislative battle in Congress."

Those of us who make our living from this business know what a useful purpose the ability to warehouse loans at reasonable discounts or to secure take-out commitments at such discounts provide. We also know that there are many other arrangements where the collection of reasonable discounts is the only means of providing the flexibility that our industry needs in order to make any loans at all. Because this ability is so useful we must at all costs preserve our newly acquired freedom. Thus we do need to be most cautious.

But we do not only need to exercise caution on our own behalf; we also need to persuade builders with whom we do business that their interests are not well served at this time by asking us to secure for them any warehousing or other kind of an arrangement which on the surface might involve the delivery of loans at heavy discounts. The almost inevitable result of public knowledge of such arrangements is going to be that the story will be used by members of Congress who are so inclined as examples of why discount controls should be reimposed.

John C. Hall
PRESIDENT

MBA Meeting, Southern Style

This year, according to plan, the MBA program called for a stop in a city where no Association meeting had been scheduled in recent years—Nashville, for our 1958 Southern Mortgage Conference. Approximately 650 attended making it one of the largest MBA regional meetings in the past several years. Main topic of interest was—as it has been at other meetings this year—the changed business climate in which lenders find themselves today, a welcome relief from that experienced as late as last fall. The program covered all the aspects of these new conditions in mortgage origination and investment; and one particularly interesting observation was that of B. Frank Patton, vice president of the Guaranty Trust Company, New York, on the potentialities of selling mortgages to pension trusts.

"In my opinion," he said, "one of the very important reasons why mortgages have not been used more extensively by pension trustees is that the mortgage bankers, the sellers of mortgages, have only the vaguest conception of the legal and operating problems with which trustees are confronted in buying mortgages and have not seriously attempted to merchandise their product, as the security dealers for generations have successfully merchandised theirs.

"Before Guaranty embarked upon a program of acquiring mortgages for pension accounts, we spent about 2½ or 3 years of rather intensive study, first in an effort to educate ourselves as best we could on the problems and expenses which would be involved in the acquisition and retention of mortgages, and second in an effort to develop mechanisms which would enable us safely, efficiently and economically to make our selections, inspections, provide proper servicing and in general do or have done all of those things which are essential in the operation of a mortgage investment program.

"Since we do not have a large mortgage department, the first problem was how we would go about selecting the areas in which we would want to acquire mortgages. Another was the manpower and expense involved in the inspection of properties. Still another was the processing of the various papers, legal and otherwise, which have to do with the mortgages and satisfying ourselves that we had an enforceable obligation free of prior claims with respect to the property itself and also as to the government guarantee or insurance. Coupled with all of this was, of course, the matters relating to servicing."

» **THEY WERE THERE: Among first morning speakers, photo below, were (seated) B. B. Bass, American Mortgage and Investment Co., Oklahoma City; Dr. James W. Henley, Nashville, who gave the invocation; the Hon. Ben West, mayor of Nashville; and (standing) MBA Clinic chairman Carey Winston, Washington, D.C. and Herschel Greer, chairman of the Conference, and president, Guaranty Mortgage Company, Nashville. And below them, a happy sextet composed of Mr. and Mrs. H. C. Bailey, Bailey Mortgage Company, Jackson, Miss.; Mrs. R. D. Gooch, Memphis; Miller Kimbrough, Kimbrough-Phillips Co., Nashville; R. D. Gooch, Metropolitan Life Ins. Co., Memphis; Mrs. Kimbrough. In top photo, second column, the Hon. Howard Pyle, assistant to the President, Washington, D.C.; with the Hon. Frank Clement, Governor of Tennessee. Mr. Pyle was a Conference speaker; Gov. Clement welcomed Conference registrants to Tennessee. And below, that's Mr. Greer again (third from right) with Herbert N. Jordan, Folk-Jordan Company, Nashville; Frank J. McCabe, Jr., MBA executive vice president; and, at far right, the Hon. Albert Gore, Senator from Tennessee, who spoke at the opening session.**

At MBA's Southern Mortgage Conference

ALSO THERE: First photo above, Tuesday morning speakers, (seated) John A. Hand, president, The First National Bank of Birmingham, Alabama; Homer B. Gibbs, The National Life and Accident Ins. Co., Nashville; (standing) James W. Rouse, James W. Rouse & Company, Inc., Baltimore; FNMA President J. Stanley Baughman; B. Frank Patton, Guaranty Trust Company of New York. Top photo, second column above, J. Ed Turner, Hattiesburg, Miss.; Geo. S. Parrish, Life and Casualty Ins. Co., Nashville; M. E. Hurlbut, M. E. Hurlbut Inv. Corp., Shreveport, La.; Wm. M. Fairley, Hattiesburg; H. C. Bailey, Jackson, Miss. Lower photo bank, first, G. R. Norfleet, VA, Nashville; Raymond L. Davis, Jr., Murphree Mortgage Co., Nashville; R. G. Holladay, Marx & Bensdorf, Inc., Memphis; Russell H. Perry, Republic Insurance Co., New York. Below them, attending the Southern brunch at Belle Meade Mansion: Mrs. John C. Hall, Jr., Birmingham; Mrs. Homer B. Gibbs, Nashville; Mrs. Carey Winston, Washington, D.C.; Mrs. Herschel Greer, Nashville. The jovial group in top photo, second column below, consists of Mr. and Mrs. Edgar W. Pfeiffer, Tri-State Mortgage Co., Pensacola, Fla.; Mr. and Mrs. Richard H. Kimbrough, Kimbrough Investment Co., Jackson, Miss.; Mr. and Mrs. William H. Sanderson, State Home Loan Corp., Louisville, Ky. Final photo, group at YMAC breakfast meeting: Carey Whitehead and L. V. Sharp, Allied Investment Co., Memphis; Geo. C. Dickerson, Stockton, Whatley, Davin & Co., Jacksonville, Fla.; John H. Tipton, Jr., National Life and Accident Ins. Co., Nashville, chairman of the event; John C. Hall, Jr., Cobbs, Allen & Hall Mortgage Co., Birmingham.

Southwestern Mortgage Clinic Will Meet in San Diego, May 8 and 9

Final "port of call" on MBA's spring circuit of regional meetings will be San Diego, when the Southwestern Mortgage Clinic is held there May 8 and 9 at the Del Coronado Hotel. Malin Burnham, vice president, John Burham & Co., San Diego, as general chairman for this meeting, will preside over all sessions.

Featured on the first morning's program will be a panel discussion devoted to the topic of "Money Availability as Viewed by Commercial Bankers." Jesse W. Tapp, chairman of the board, Bank of America, Los Angeles, will introduce panel members and summarize the discussion. Participants and their individual areas of discussion will be:

Anderson Borthwick, president, First National Bank of San Diego, "The Commercial Banker Looks at the Mortgage Business"; George Champion, president, The Chase Manhattan Bank, New York City, "The Demands of Industry for Money in 1958"; Kenneth V. Zwiener, president, Harris Trust and Savings Bank, Chicago, "Money and Its Price."

MBA President, John C. Hall, president, Cobbs, Allen & Hall Mortgage Company, Inc., Birmingham, will speak on "Prospective Developments in the Mortgage Market."

Other first morning speakers will include Carey Winston, president, The Carey Winston Company, Washington, D. C., who will deliver a welcome to the Clinic; Roger C. Olson, president, California MBA; vice president, East Bay Mortgage Service, Inc., Oakland, who will give the welcome to California; and Robert L. Black, president, San Diego MBA, vice president and treasurer, Palomar Mortgage Company, San Diego, who will welcome registrants to San Diego.

At the noon luncheon for all men registrants, on Thursday, May 8, MBA general counsel Samuel E. Neel of Washington, D. C. will speak on "The Federal Government's Role in Our Mortgage Banking Future." There will also be a special luncheon for ladies at the poolside of the Del Coronado Hotel. A special swimming and diving exhibition will be featured.

Thursday afternoon will be devoted to round-table discussion meetings, commencing at 2:00 p.m. and being repeated again at 3:00 p.m. to enable all registrants to attend at least two different meetings. The individual sessions and co-moderators of each are:

"The Development and Care of Key Personnel"—John W. Blundell, executive vice president, Western American Mortgage Company, Phoenix; C. A. Bacon, vice president, Mortgage Investments Co., Denver.

"Current Trends in Financing Shopping Centers"—Clem C. Glass, vice president, W. Ross Campbell Co., Los Angeles; Stephen G. Cohn, president, Greenebaum Mortgage Company, Chicago.

"Methods of Procuring New Mortgage Business—Lowell H. Duggan, president, Duggan Investment Company, Alameda; John J. Lyman, vice president, Dwyer-Curlett & Co., Los Angeles.

"Analysis of Apartment Lending"—Charles B. Shattuck, president, The Shattuck Company, Los Angeles; Silas O. Payne, vice president, Marble Mortgage Company, San Francisco.

That evening, at 6:30 p.m., a reception will be given in the Circus Room of the hotel. Host for the occasion will be the San Diego Mortgage Bankers Association. Dancing is scheduled for after dinner.

Lead-off speaker for the Clinic's third regular session, Friday morning, May 9, will be Dr. George Cline Smith, economist, F. W. Dodge Corporation, New York City. His address will deal with "Housing and Credit Prospects."

Reginald B. Miner, vice president, John Hancock Mutual Life Insurance Company, Boston, will speak on "What the Investor Expects of His Correspondent."

Arthur L. Lynds, president, Hobart


Jesse W. Tapp


Kenneth Zwiener


George Champion


Anderson Borthwick


John C. Hall


Malin Burnham


Roger C. Olson


Silas O. Payne


Lowell Duggan


John J. Lyman


Geo. Cline Smith


Samuel Neel

Homes, Inc., Chula Vista, California, will moderate a panel discussion on "What the Builder Expects of a Mortgage Banker." Among the participants will be Walter Bollenbacher, Bollenbacher & Kelton, Inc., of San Diego. Two other panelists are yet to be selected.

Preceding that morning's regular business session, the Young Men's Activities Committee of MBA will sponsor a YMAC Breakfast and Discussion Meeting at 8:00 a.m. in the hotel's Coronet Room. Franklin D. Richards, Jr., vice president, Franklin D. Richards & Co., Salt Lake City, is chairman of the event.

In the afternoon, for those wishing, there will be golf at the Coronado Municipal Golf Course. Also scheduled is a special tour of San Diego Bay by chartered sightseeing boat. This tour will include an inspection of the tremendous U. S. Naval installations, the newly enlarged port facilities, private marinas and residential developments.

Evening plans call for a visit to the Jai Alai games in Tijuana, Mexico, for which special buses will leave directly from the hotel.

San Diego members serving as chairmen and working with the different committees in charge of arrangements for the Clinic include:

Arrangements and Program Committee: chairman, Malin Burnham, John Burnham & Co.; members, Ewart W. Goodwin, Percy H. Goodwin Company; Henry Rasmussen, Jr., John Burnham & Co.

Attendance Committee: chairman, Jack Barnett, McMillan Mortgage Co.; members, Richard Randolph, W. H. Fraser Mortgage Company; Edward Hastings, Land Title Insurance Company; Wendell A. Stubbs, Security-First National Bank; Robert Cobb, T. J. Bettes Company.

Publicity Committee: chairman, Richard Cromwell, Union Title Insurance and Trust Company; members, Charles R. Berdel, Allen Mortgage Co.; James L. Buck, Jr., Southern California Mortgage & Loan Corp.

Entertainment Committee: chairman, Robert L. Black, Palomar Mortgage Company; members, Edwin Bingham, First National Bank of San Diego; Donn Maurer, Security Title Insurance Company; Howard Riffey, Bank of America.

Transportation Committee: chairman, John Starkey, Southern Mortgage Company; members, George Coleman, Curtis Coleman Company; John Butler, Union Title Insurance and Trust Company.

WHY ECONOMISTS DISAGREE

(Continued from page 21)

declines on some previous occasions. Finally, there is undeniable evidence of support in the current strength of total construction activity as well as in the defense program, which also argues against the probability of a sustained drop.

Obviously, there is always some risk of a downturn carrying further than can reasonably be anticipated at any given moment; there is no reliable way to gauge the course of inventory liquidation, the market for homes and passenger cars, the effects of Government action, or the many contradictory influences acting upon business investment programs. Nor would it be a service to deny that the economy today seems more vulnerable to the forces of contraction than was the case in the previous two postwar recessions, when many deferred demands were still waiting to be filled. Nevertheless, the odds are against a spiralling decline to depression levels.

Weighing the probabilities, therefore, it seems reasonable to assume that the decline in economic activity will come to a halt sometime this year, although perhaps not in the months immediately ahead. As to the next question—when business will resume its advance—I doubt whether speculations are of much value until the current decline has given clear-cut evidence of bottoming out. When there is evidence that the economy is approaching the end of the downtrend, an appraisal of the recuperative forces then in prospect is likely to be more informed, more meaningful, and perhaps more enlightening than the sheer guesswork that any such attempt would now represent.

» MORE RENTAL: Rental housing construction will increase about 10 per cent to 165,000 this year, *House & Home* predicts. The forecast covers both two-family and multi-family buildings—which together were 15 per cent of all 1957 housing starts vs. 10 per cent in 1956. Private two-family starts were up 5.8 per cent to 32,700 in 1957; multi-family were up 43.4 per cent to 118,000.

Except for a brief flurry of 608 construction, rental housing has been in the doldrums for a generation—victim successively of the depression, war, rent control and the FHA windfall scandals, the magazine points out. In 1927, rental housing accounted for 44 per cent of all starts.

Other MBAs

Convention Time for California MBA

IT WAS only the third annual Convention for the California MBA but already it has become one of the big mortgage meetings of the year and a close runner-up to the annual Texas MBA among local and state annual programs. Scene was Palm Springs and more than 400 attended the event with a meeting theme of "California, the Golden State for Mortgage Loans." Growing pains, with the attendant and urgent need for more and more capital, have been chronic in California. This year, with the better supply of mortgage funds in evidence, the California meeting was characterized by a happier feeling among lenders than had been true on the two previous occasions.

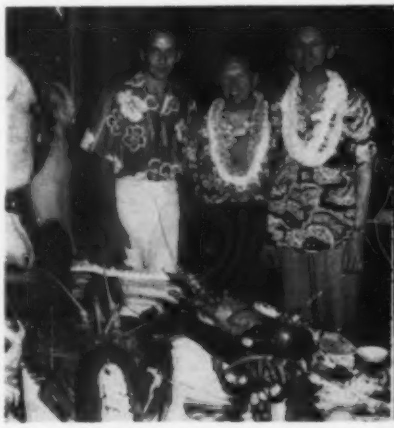
R. Manning Brown, Jr., vice president in charge of real estate and mortgage loans for New York Life Insurance Company, told the Californians that the future for them seemed to be a bright one.

"With all its many features which have attracted new people for over 100 years, I would certainly say that California can expect a full share and more of these expanding opportunities. There will be good times and bad times, but by and large, they will be good. Some will benefit to a greater extent than others. Some parts of California will benefit to a greater extent than others. Some of you will be better prepared to take advantage of the opportunities that will be presented than will others. This is an excellent time to take inventory. Take advantage of your first opportunity to take stock of and re-appraise your own operation. I strongly urge, if you have not already done so, that you learn all phases of the mortgage business. It is not enough to be in the insured and guaranteed field alone. You should have the know-how to take care of all mortgage needs of your client. Commercial loans and conventional residential loans are being made. If you don't make them, someone else will. Watch your servicing and your delinquency. You can be sure your principal does. And watch your financial structure. It is reassuring to us investors to see you keep some of your earnings in the business. Your net worth is the cushion that protects the investor from servicing directly. He likes to see that cushion grow as your servicing grows. It has been gratifying to see the improvement in the quality of the financial information the mortgage banker is providing."

Directing California MBA members' attention to the broader, nation-wide picture, Mr. Brown said:

"When everything is booming, people are willing to take more risks to obtain what they desire. When friends and relatives are being laid off, most individuals are inclined to take a more cautious approach to major financial moves, even though they themselves have not been directly affected. As a result, we have two factors working against housing demand. We have a decrease in the number of people who can afford a new home, and we also have a decline in the number of people who are willing to make the investment required, even though they may be capable of doing so.

"The psychological aspect of today's economy has important implications in the whole situation. The




LUAU GUESTS: Photo above, Roger C. Olson, president, California MBA; Walter C. Nelson, MBA vice president; Gordon Stimson, immediate past president, California MBA. Below them, George and Pat Botta of Northwestern Mutual Life Ins. Co., San Francisco. Top photo, second column, that's Robert Murphy, California-Western States Life Ins. Co., awarding golf trophy to winner Jim Phelps, Northwestern Mutual Life Ins. Co. And, in final photo, tax panel moderator Linden Stark explains a point of California real property law to John J. Lyman, the evening before their appearance on the panel.

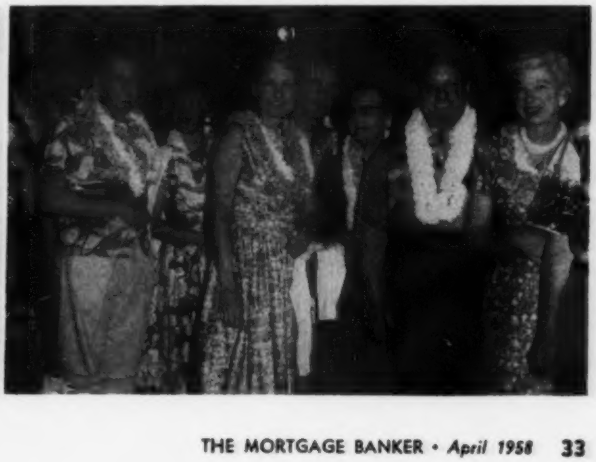

demand side of the housing equation appears to be the controlling factor in this important segment of the economy. I am speaking of a general, nationwide picture, and I recognize the existence of happy exceptions, where the boom continues and the number of new housing starts is breaking all records. It is important that you be objective in analyzing the situation in your own community.

"The longer view that I take is extremely optimistic. Although we will have our ups and downs, basically we live in a healthy and prosperous country, a growing country. Our economy is dynamic and its horizons unlimited. Our population is increasing, our people are strongly inclined to home ownership."

Roger C. Olson, vice president, East Bay Mortgage Service, Oakland, was elected president, together with R. C. Larson, C. A. Larson Investment Company, Beverly Hills, vice president, Silas O. Payne, Marble Mortgage Company, San Francisco, secretary, and Malin Burnham, John Burnham & Company, San Diego, treasurer. The three new directors for three-year terms were D. Clair Sutherland, vice president, Bank of America, San Francisco; Frank Ely, vice president, Western Mortgage Corporation, Los Angeles; and C. W. Courtney, president, General Mortgage Company, Bakersfield.

PANEL DISCUSSION GROUP on "California Real Property Taxation Problems." Left to right: Bradford Trenham, past president, California Taxpayers Assn.; Samuel Leask, Jr., Los Angeles City Administrative Officer; H. Harold Leavey, chairman; Linden Stark, panel moderator; John J. Lyman, vice president, Dwyer-Curlett & Co.; Robert E. McDavid, member, California State Board of Equalization; James M. Udall, immediate past president, California Real Estate Association.

JOVIAL QUINTET: In photo above, first, an unidentified, though very handsome couple; then Hal G. Whittle, H. F. Whittle Investment Co.; Mrs. Roger C. Olson, Oakland; C. C. DeWitt, Jr., East Bay Mortgage Service, Inc., Oakland. Below them, Mrs. Walter C. Nelson, Minneapolis; Mrs. Frank J. McCabe, Jr., Chicago; Walter C. Nelson, Eberhardt Company, Minneapolis; and other guests enjoying the Hawaiian luau. Top photo, second column, shows other smiling luau guests: Frank J. McCabe, Jr., MBA executive vice president; Lewis O. Kerwood, MBA director of education; Mr. and Mrs. Gordon Stimson, Wallace Moir Company, Beverly Hills. And finally, another festive luau group with Mr. and Mrs. Richard Randolph, W. H. Fraser Mortgage Company, San Diego, on the far left; and on the far right, Mr. and Mrs. Rome F. Moretti, Bank of America, San Francisco.



Columbus MBA Installs Officers for 1958

Almost 150 members and guests attended the annual dinner meeting of the Columbus MBA recently. The evening program included the installation of 1958 officers and board members, headed by president Fred R. Place of the Ohio Title Corporation. Featured speaker of the evening was MBA vice president, Walter C. Nelson, president, Eberhardt Company, Minneapolis. He spoke on "Current Trends in the Mortgage Market."

Preceding the evening affair, Mr. Nelson had toured the Columbus, Ohio, area and was joined at luncheon by a number of the local mortgage bankers. At that luncheon, pictured above, are: seated, from left, Philip E. Baehr, Karl W. Kumler, James W. Phillips, James W. Hill, Allen R. Rankin, L. D. Reynolds, Joseph C. Hughes, J. F. Hott, Ward C. Case, Mr. Nelson, Mr. Place and Joseph C. Link. Standing: Robert K. Eller, W. W. Wheaton, Thomas K. Hartzler.

Frederick Stobaeus Is New Jersey MBA Head

Frederick C. Stobaeus, vice president, National Mortgage Co., Newark, was elected president of the New Jersey MBA for 1958. Others elected are: first vice president, Raymond A. Mulhern, vice president, Underwood Mortgage & Title Co., Irvington; second vice president, Charles J. Horn, vice president, National State Bank of Newark; treasurer, Robert E. Scott, president, R. E. Scott Mortgage Company, Elizabeth.

F. C. Stobaeus

Appointed as members of the board of governors: for three year term expiring 1961, Robert G. Guempel, Ernest R. Hansen, Max Neuberger and Arthur G. Pulis, Jr.; and to fill the unexpired term of Mr. Scott, who assumes the office of treasurer, Paul J. Dutko, term expiring 1959.

Executive Secretary for the statewide group is Robert J. Sinnenberg, appointed January 1 of this year. He is with the Mutual Benefit Life Insurance Co. of Newark and succeeds Charles J. Horn, who held the post for the past five years.

Chicago MBA Takes Lead in Anti-Slum War

How a local mortgage association can take the lead in a most important type of civic activity was proven recently when the Chicago MBA literally stole the show in doing something about a problem that had been on the front pages of the city's newspapers for weeks.

In certain sections of the city, where there had been widespread and illegal conversion of buildings to provide for more living space than is permitted, there had been a number of disastrous fires with heavy loss of life. The Mayor, the various city agencies concerned with housing and numerous civic organizations united to see what could be done.

The Chicago MBA, headed by Robert H. Pease, vice president of Draper and Kramer, Inc., recommended to its members that:

"1. A clause permitting immediate calling up of a loan under certain conditions be included in all new and renewed mortgages throughout the city.

"2. No loan be made for major building improvements without evidence of a building permit.

"3. No loan be made without a certificate of occupancy as required under a city ordinance passed in January.

This ordinance requires owners of apartment buildings of three or more units to register with the city the owner's or managing agent's name, the amount of space in each apartment, the number of occupants and other data.

Pease said the proposed new get-tough mortgage clause would permit making a loan payable immediately if:

—A building isn't maintained, repaired and operated in accord with all city ordinances.

—A building is altered in any way without the consent of the mortgage-maker or trustee.

—There is any substantial change in a building's character or use without consent.

Pease said the Chicago MBA hopes to accomplish two things by its action —keeping slums from growing and encouraging new money for building improvement in existing slum areas.

Lubbock MBA Elects

Newly elected officers of the Lubbock, Texas, MBA for 1958 include: Tom Travis, president; O. B. Stewart, vice president; and Hector Mackay, secretary-treasurer. George Link, Ben Cole, Charles Adams, Jr., and LeRoy Waggoner were elected to the board of directors.

John Lyman Heads Southern Calif. MBA, Lex Marsh N. C. MBA

Newly elected president of the Southern California MBA for 1958 is John J. Lyman, vice president of Dwyer-Curlett and Co., Los Angeles. He is shown above, third from left, flanked by Gordon Calder, executive vice president, Alison Co., new SCMBA vice president; and Guy B. Mize, executive vice president, Marble Co., new secretary-treasurer. At the far left is outgoing president Vaughn J. Cook, of Beverly Hill Securities Co. Directors elected, in addition to Mr. Cook, include: S. H. Dolley, George Elkins, Richard Howlett, Frank Kiner, William R. Schroll and Robert Sutro. Principal speaker at the group's annual dinner and election meeting was J. Edward Day, vice president, Prudential Life Insurance Co., who discussed "Current Trends Affecting Mortgage Lending."

In the photo at right, that's Lex Marsh (center), newly elected president of the North Carolina Mortgage Bankers Association, with T. W. Crutcher, Jr., new secretary-treasurer, left, and Ike C. Lowe, right, a director elected to serve a three-year term. Mr. Marsh is president of the Marsh Land Co. and the Marsh Realty Co. Mr. Crutcher is secretary-treasurer, Dunaway Crutcher Mortgage Co.; Mr. Lowe is secretary-treasurer, McDonald Mortgage Co., Inc. Also elected but not pictured were J. Alton Stanford, as vice president; and Carlyle McDowell, immediate past president, as a director.

Texas MBA Prepares for Big 42nd Meeting

An entertainment-packed program—to be highlighted by a "Beachcomber's Ball"—will be featured at the 42nd annual convention of the Texas Mortgage Bankers Association.

To be held in Galveston, May 11-13, the convention has been planned "so that mortgage bankers from all sections of the MBA membership can join Texas Association members in having a whale of a good time," reports TMBA President James Teeling of Dallas.

Carroll L. Jones of Corpus Christi, vice president of the state association, is chairman of the general arrangements committee. He is being assisted by Robert W. Drye of Houston as vice chairman, and Mr. Teeling.

In addition to the entertainment planned during the convention, Galveston offers "unusual opportunities for a good time," Mr. Jones emphasizes. A large seaport city located on an island connected with the mainland of Texas by two causeways, Galveston's entertainment facilities include deep sea fishing, surf bathing as well as pool swimming at luxury hotels and motels, "and plenty of sunshine."

The costume party, with a "Beachcomber" theme, will be held the night of May 13 in the new, modern Moody Civic Center, a huge, completely air-conditioned building completed last summer and located conveniently near the convention headquarters Galvez Hotel, as well as near other of the city's resort hotels.

Registration for the convention will start Sunday, May 11, at the Galvez Hotel, with business sessions scheduled for the mornings and afternoons of May 12 and 13.

Entertainment scheduled for all persons attending the convention, including wives of mortgage bankers and representatives of allied businesses, will include the annual installation dinner-dance of new TMBA officers and directors. The installation party will be held in the Moody Civic Center the night of Monday, May 12.

Music for the dinner-dance will be provided by the Jan Garber orchestra, while entertainment for the "Beachcomber's Ball" will include music by Ralph Marterie and his orchestra and Hilo Hattie and her troupe of Hawaiian dancers.

This appealing miss is but one of the lovely members of the Hilo Hattie Hawaiian troupe scheduled to entertain at this May's forthcoming Texas MBA Convention.

Additional entertainment plans for wives of convention delegates are nearing completion, while the program for the convention is being designed "to give everyone attending plenty of opportunity to have a good time and to soak up a lot of Texas sunshine," Mr. Teeling emphasizes.

Galveston, one of Texas' oldest cities, occupies an island 32 miles long and from one to two miles wide. Cabeza de Vaca was the first white man to set foot on the island—discovering it in 1523. More than a century later, LaSalle named the island San Louis in honor of his French sovereign although it remained unoccupied except for roving bands of Caronkaway Indians.

Occupied in the 18th century by troops from Spain, the island was named Galvez in honor of their leader. The name later became Galveston. In 1816, Jean Lafitte, notorious pirate chief, made Galveston his headquarters and rendezvous for his ships and men. After Lafitte and his crews left in 1821, American pioneers moved to the island, establishing a settlement there by 1830.

The island and city of Galveston gradually changed through the years from a trading post into a port, receiving Federal recognition as such in 1889. In later years, Galveston has come to be known throughout the world as one of the most important ports and commercial centers, as well as a resort, on the Gulf Coast.

San Diego MBA Holds Panel on Escrows

A panel discussion, "Escrow Problems in Mortgage Lending," was featured at the March meeting of the San Diego MBA. Panel participants included: Marian Schwartz, manager, Rosecrans Escrow; Jean Seigert, Land Title Insurance Company; Robert J. Donais, manager, escrow department, Union Title Insurance & Trust Co.; John J. McCloskey, president, Allison-McCloskey Escrow Company. James L. Buck, Jr., president, San Diego Escrow Association and vice president, Southern California Mortgage and Loan Corporation, acted as moderator.

Indiana Mortgage Bankers, Inc., Organizes

New addition to the ranks of local MBA groups is the Indiana Mortgage Bankers, Inc., which held its organizational meeting on February 24, in Chicago's Blackstone Hotel. Above, seated, are officers: Vice President, Sam C. Ennis, president, Samuel C. Ennis & Company, Inc., Hammond; president, Albert A. Savill, president, Savill-Mahaffey Mortgage Company, Inc., Indianapolis; secretary, R. W. Stockwell, vice president, Union Title Company, Indianapolis. Others pictured, all directors or regional vice presidents are, left to right: Clifford A. Pletcher, South Bend; Paul J. Ivankovig, South Bend; R. H. Waterfield, Fort Wayne; E. A. Wilhite, Gary; J. R. Pearson, Evansville; J. D. Carter, Evansville; Frank H. Dunn, Indianapolis; Dale W. Mitsch, New Albany; P. J. Pfister, Terre Haute. Not shown in the picture is the group's treasurer, H. Duff Vilm, Indianapolis. Directors not pictured include: Harold L. Bobeck, Ft. Wayne; and Forrest S. Briggs, Gary.

Scholarship Grants by New Jersey MBA

At its 19th annual meeting last month in Newark, the Mortgage Bankers Association of New Jersey presented its two annual scholarship awards of $500 each. These grants are presented under the auspices of that local group's Educational Foundation which has as its aim the sponsoring of college students recommended by Rutgers University and Upsala College. To qualify for these awards, the student must show "need and a desire to study real estate and mortgage lending subjects."

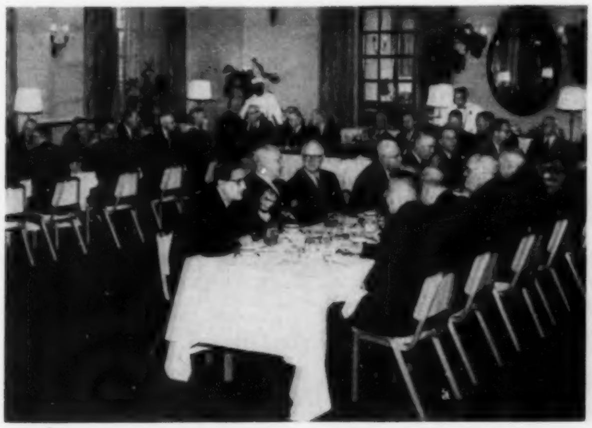
Representing something totally unique in the realm of educational activity as engaged in by local MBA groups, the New Jersey MBA Educational Foundation came into being in March of 1956. The idea stemmed originally from a suggestion made in November, 1955, by Mr. Samuel Farb of the National Mortgage Company of Newark, that the New Jersey group sponsor an essay contest for New Jersey college students entitled, "What Freedom of Enterprise Means to Me."

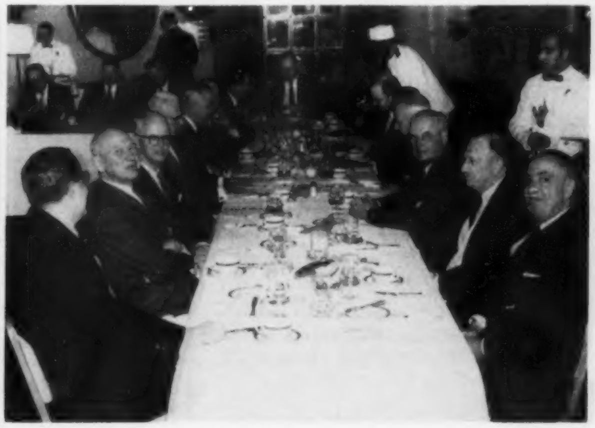
A special scholarship committee was appointed and it was decided to donate a scholarship of $500 each to Rutgers University and Upsala College, annually, which would cover very closely the full year's tuition at either college. It was further recommended that the local MBA's membership fees be increased by $10 per annum. This would accumulate each year approximately $800 of the total cost of these scholarships. The balance, each year, of the requisite $1,000 would be paid directly from the group's treasury. The committee proposed, also, that a Foundation be established to solicit its local members for contributions to a scholarship fund.

(Continued on page 38)

MBA Goes to Washington

Housing and housing credit terms had top priority in Senate and House thinking this year when MBA held its annual congressional dinner and luncheon for federal agency officials. Reason, of course, was government concern over the business recession and the general conviction in congress that one sure way to combat its deepening inroads was to stimulate home construction by making more liberalized credit terms available. The result was the swift enactment of the emergency housing bill, a measure which for speed and one-sided voting has no precedent. To the MBA dinner were invited members of the Senate and House Banking and Currency Committees and the House Veterans Affairs Committee; and to the luncheon, officials of the Treasury, Federal Reserve System, FHA, FNMA, FHLBB, HHFA, Council of Economic Advisers, Bureau of the Budget, General Services Administration and Department of Defense. A representative group attended; and again the leaders in congress who create the legislation affecting the mortgage industry and the officials who administer it became aware of the national organization in the mortgage field and its continuing desire to assist in determining the roles for government and private enterprise.





Above, the luncheon with photo at right showing, left side, John Dane, Jr.; Winfield Riefler, assistant to the chairman of the Federal Reserve Board; George P. Bickford, FHA general counsel; Elmer Grootemaat, Milwaukee; Woodlief Thomas, economic adviser to the Federal Reserve; William C. Weaver, Jr., Nashville; right side, C. H. Bonnin, New York; J. S. Davies, member, Council of Economic Advisers; Albert J. Robertson, Chairman, Federal Home Loan Bank Board; Carey Winston, Washington, D.C.; and Richard L. Steiner, Urban Renewal Administration. Photos below of dinner guests.

SCHOLARSHIP GRANTS

(Continued from page 36)

Following the overwhelming approval of these recommendations by the group's membership, trustees were appointed to establish and administer this endowment fund. Carton S. Stallard, president of the Jersey Mortgage Company in Elizabeth, was appointed for a three-year term and served as chairman the first year.

The first scholarship grants were given in June, 1956. Later that year, the Foundation was organized legally as a non-profit, tax free corporation, with Mr. Stallard as president. By March, 1957, contributions and pledges from New Jersey MBA members totalled $2,400. The 1957 campaign for funds netted another $1,400. An additional $400 in contributions early this year, brought the total amount in the Foundation treasury—as of mid-January—to almost $4,200. In the granting of these scholarships, only the interest and not the principal of this fund is used.

ROLE OF MORTGAGES

(Continued from page 15)

to embrace the FHA program for some time. They have already proposed a new program for insuring conventional mortgage loans and discussions continue of liberalizing provisions under which conventional loans may be made, including higher loan-value ratios and longer maturities.

Upon the success of such programs as these, I feel, rests the ability of savings and loans to continue effectively to invest the bulk of their funds in conventional mortgage loans.

One thing that can be said with certainty about the future course of events in mortgage markets is that if the thrift institutions and others continue to rely as heavily on Federal programs as they have in the past, they will be vulnerable to unpredictable statutory and administrative changes. The alternative to such uncertainties would be to accept the uncertainties of the market place and bear the risk of error in judgment and economic change with minimum reliance on Federal support, direct or indirect.

Turning, more specifically, to the shorter run outlook, it seems clear that the capital market framework in 1958 will be one in which the flow of mortgage investments from thrift institutions is encouraged. The question of flexible interest rates on Federally insured mortgages which I consider so basic to longer run developments will be of much less consequence in 1958 because competitive long-term bond yields which have been declining recently may be expected to stabilize or decline further. The demand for funds by corporations will be less in 1958 than in 1957 and, while demands for financing by state and local governments will continue large, the thrift institutions are only a minor source of funds in this market. In this setting the 5¼ per cent FHA-insured loan will appear increasingly attractive to thrift institutions, even to the point where discounts may disappear.

Offsetting this more favorable outlook in part, is the expected further decline in the flow of savings to the three main types of thrift institutions. The 1957 slowdown in savings represented in part competition from commercial banks paying new high interest rates for time deposits, and in part the continued trend in the life insurance business towards low premium paying term policies for both individuals and groups. The writing of term policies will still be an important influence on life insurance savings in 1958, but competition from commercial banks for savings accounts may lessen as interest rates generally decline.

In any event, the flow of liquid savings generally tends to change slowly from year to year and any decline accompanying a deepening of the recessionary tendencies which are now evident will be small. Moreover, the thrift institutions may supplement their savings inflow by borrowing, or by sale of Governments in order to take advantage of a favorable mortgage market. Admittedly the degree of liquidity which can be achieved from generally reduced government bond portfolios is small compared with the immediate postwar years but for savings banks and life insurance

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George H. Patterson, who retired last November after 26 years as MBA secretary and treasurer, was honored recently by the Mortgage Bankers Association of Central Florida, when that group presented him with a

plaque in appreciation of his outstanding service to the mortgage industry. Mr. Patterson, now a resident of Largo, Florida, is shown in the photograph above. With him is **Frank W. Reed,** left, vice president, The First National Bank at Orlando, who made the presentation; and **Howard J. Murphy** of Fort Lauderdale, president of the Florida MBA.

Paul P. Swett, Jr., was elected president of the Maryland Life Insurance Company of Baltimore, it has been announced. He succeeds **Donald H. Garver,** who is retiring after more than 40 years of service. Mr. Swett is also a director, member of the executive committee and chairman of the finance committee of Maryland Life.

Massachusetts Mutual Life has announced the promotion of three second vice presidents to full vice presidents; these men and their areas of activity are: **Kenneth W. Perry,** agency operations; **John S. Simpson, Jr.,** investments; and **Arthur I. Macdonald,** mortgage loans.

American Title and Insurance Company, has ceased writing all lines of insurance other than title insurance and will in the future confine its insurance activities solely to this field. This has been accomplished by reinsuring all of its contracts, other than title insurance, with other insurers.

Sale of The Coffeyville Loan and Investment Company, Inc., to Wadsworth Acceptance Company, Inc., a Kansas City firm, is announced by **D. A. Willbern,** vice president of the Coffeyville, Kansas, firm. C.L.I.C. was founded in 1937 and became one of the fastest growing savings and mortgage institutions in Kansas. Headquarters of the company will remain in Coffeyville although plans are in the formative stage for the opening of a number of branch offices across Kansas and Missouri. **Donald R. Elbel** is president of the Wadsworth Acceptance Co., Inc., a wholly owned subsidiary of Elbel Enterprises, Inc., a nationally known organization operating out of Kansas City, Mo., with operations involving over 100 million dollars in home-building and real estate developments.

Election of **R. H. Schildhauer** as assistant vice president of Advance Mortgage Corporation and manager of the firm's Milwaukee office, was announced recently by **Irving Rose,** president of the Detroit corporation. Mr. Schildhauer comes to Advance Mortgage from Harnischfeger Homes Acceptance Corporation, where he served as assistant secretary. He will supervise the origination and servicing of residential, industrial and commerical loans throughout Wisconsin.

The Minnesota Mutual Life Insurance Co. of St. Paul has announced the election of three new members to its board of trustees. They are **Carl R. Anderson** and **Franklin Briese** of St. Paul, vice presidents of the company; and **Russell F. Staudacher** of Chicago. Mr. Anderson joined Minnesota Mutuai in 1921, beginning as policy issues manager. In 1929 he was appointed company secretary, a post he held for 25 years. He was elected a vice president in July, 1943. Mr. Briese became associated with the firm in 1929. In 1931 he was appointed assistant attorney, mortgage loans, then successively held the posts of assistant manager, mortgage loans; assistant manager, investment department; assistant treasurer and treasurer. He was elected a vice president of the company in 1954.


Franklin Briese

The mortgage loan business of the Southern Trust Company, a long-established Louisville firm, has been sold to Laclede Bond and Mortgage Company, Clayton, Mo.

The sale was announced jointly by **Carl Harris,** executive vice president and **Pleasant Bradley,** vice president, of Laclede, and **L. A. McLean,** president of the Southern Trust Company. McLean is retiring from the mortgage loan business. Mr. McLean is a former president of MBA and was prominent in the growth and develop-

PERSONNEL
AND BUSINESS NEEDS

In answering advertisements in this column, address letters to box number shown in care of the Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2, Illinois.

MORTGAGE MAN WANTED

Larger southern life insurance company desires mortgage man, located Home Office, age 35 to 45, college graduate, minimum ten years' active conventional loan experience, excellent advancement opportunity. Write Box 480.

ADMINISTRATIVE OFFICER
AGE 42

experienced in mortgage servicing and general financial work seeks administrative position in mortgage banking firm. Twenty years' experience in savings banking; now officer of $30 million savings and loan association. Extensive experience in all phases of mortgage work, accounting and reports, general administration; also experience in advertising, personnel. College education: B. S. in Accounting; Master of Business Administration. Extensive speaking experience. Married, four children. Will locate anywhere. Write Box 481.

HAVE ABILITY—WILL RELOCATE

25 years diversified experience Conventional, Commercial, Insured loans, Titles, Construction, Origination to secondary market. Have been V. P. in charge of operations. For résumé and photo, write Box 483.

MORTGAGE MAN

Leading midwest prefabricator has opening for president of established approved mortgagee acceptance corporation. Experience with warehousing, construction loans, and marketing essential. Investor contacts desirable. Send complete résumé. Write Box 484.

ment of the Association following emergence from the depression of the Thirties.

The Southern Trust will continue to operate its insurance business and savings and trust accounts.

The Laclede company will lease space in the building now occupied by the Louisville firm's mortgage business.

Both Laclede and Southern Trust Company have been making and selling loans for a quarter-century for the Metropolitan Life Insurance Company.

The Laclede Louisville office will operate under direction of **W. G. Harpole,** a vice president of Laclede, who has been executive vice president of Southern Trust. He was formerly associated with Franklin Title and Trust Company and FHA.

The Colwell Company, Los Angeles, has formed a commercial loan department and appointed **Donald G. Finley** as manager. He recently was assistant regional supervisor for Massachusetts Mutual Life Insurance Company in the mortgage loan and real estate division and previously was in the appraisal department of the Union Bank of Los Angeles.

David H. Solms, president, Eastern Mortgage Service Co., Philadelphia, announced the opening of a new business office in Wilmington.

Michigan Mortgage Corporation in Detroit announced that **Jason L. Honigman** was elected president and **Irving Franzel** elected executive vice president. Mr. Honigman is the senior partner of the law firm of Honigman, Miller & Schwartz, and a director of various corporations.

Mr. Franzel has been vice president and administrative head of Michigan Mortgage since it was formed in 1944 and will continue in that capacity. **Gerson Horton,** a new member of the firm, has been elected vice president in charge of builders accounts and mortgage sales. **Jerry Guttenberg,** who has been with the company over 10 years, has been elected comptroller and assistant treasurer. **Donald Burge** has been named assistant secretary and head of the processing department.

Thomas J. Sweeney, Director of VA's loan guaranty program, has resigned after 25 years government service. He has become executive vice president of the Colonial Mortgage Corporation, Washington, D. C. Mr. Sweeney joined the VA in October 1944 as the special assistant to the Director of the Loan Guaranty program. In 1946 he was named Assistant Director, a post he held until January 1955 when he was appointed Director. During his association with the program, more than five million home loans were guaranteed for veterans amounting to \$42½ billion; 70,956 farm loans amounting to \$280 million were guaranteed; 230,800 business loans amounting to \$638 million were guaranteed.

John W. Walleigh Jr. has been named vice president of Seaboard Agency, Inc., a general insurance affiliate of W. A. Clarke Mortgage Company, Philadelphia. He will be in charge of expanding the insurance services for company clients, **William A. Clarke,** president of Seaboard and the Clarke Company, said. Formerly vice president of Penn Central Insurance Agency, Inc., Walleigh had also been associated with the Firemen's Fund Group as special agent for Philadelphia and suburbs.

ROLE OF MORTGAGES

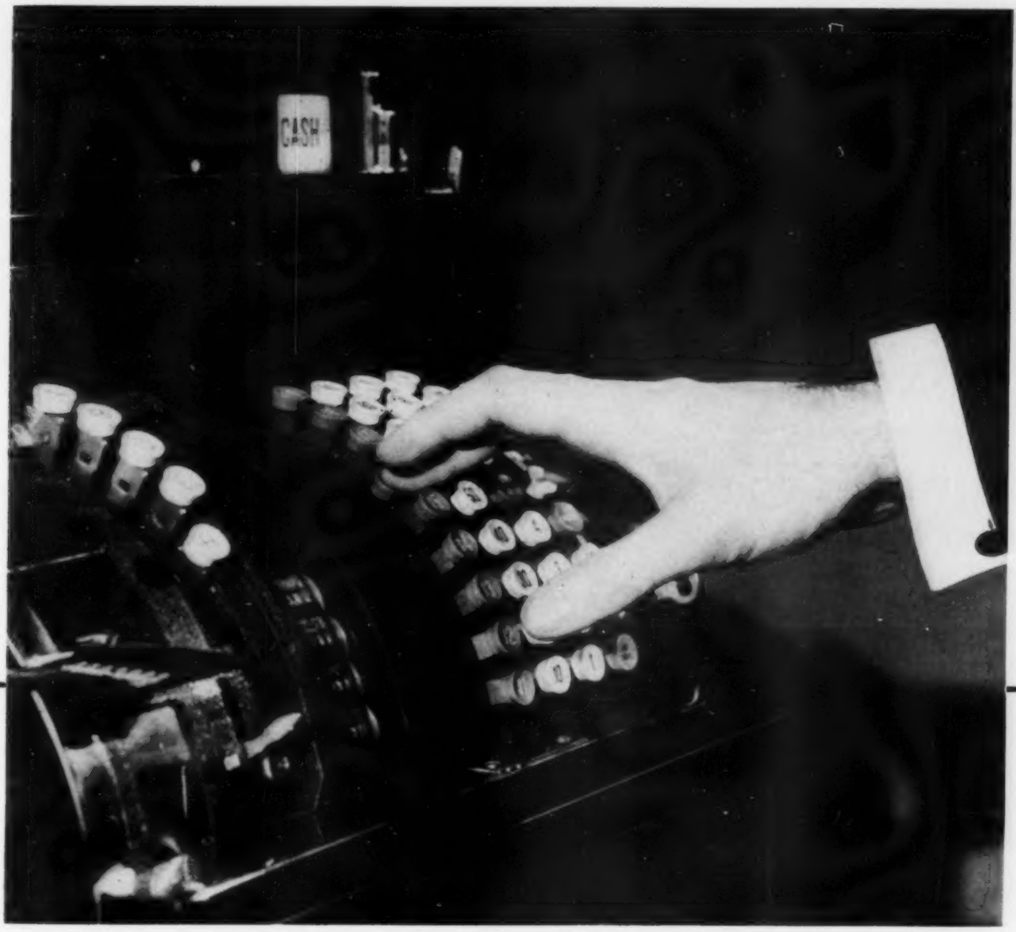
(Continued from page 38)

companies net sales have not been inconsequential in recent years. In the past two years liquidation of Treasury obligations has equalled 29 per cent of the deposit increase at savings banks and 13 per cent of the net increase in assets of life insurance companies.

Savings and loan associations, which in the past two years have reduced their borrowing from the Federal Home Loan Banks to well below the 1955 record level may again feel free to borrow in 1958.

Altogether while the flow of savings may decline further in 1958, total long-term funds available to the thrift institutions may be little different or actually greater than in 1957. Moreover, with the demand for business and consumer loans reduced, commercial banks will be in a better position to provide construction and interim financing as a supplement to long-term financing from savings institutions.

If previous patterns of investor behavior prevail then we may expect the rate of increase in net mortgage flows from life companies to be smaller than from either savings banks or savings and loan associations. The longer lag in the response of life companies to changed mortgage market conditions reflects, of course, the basic influence of the mortgage commitment process. Their current volume of mortgage commitments is large relative to premium inflows and funds available for new commitments are not plentiful. I would expect such commitments to turn up significantly after mid-year. In the meantime acquisitions for several months ahead will reflect the reduced volume of commitments made during 1957. Any increase in total mortgage acquisitions of life insurance companies during 1958 may be expected to be rather small. If a condition of credit ease continues through 1958 and into 1959, we may expect a substantially greater increase in life company mortgage flows in the latter year than inflows from savings banks and savings and loan associations. For 1958, however, I would expect the reverse to prevail. A rough guess on total volume would place the net increase in mortgage flows from all three types of savings institutions at from \$8¼ to \$8½ billion, compared with less than \$8 billion in 1957, a rise of from 5 to 8 per cent. If similar increases should become available from other types of lenders, there would probably be a much better balance between supply and demand for mortgage funds in 1958 than in 1957.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